EXHIBIT N

LATEST AUDITED FINANCIAL STATEMENTS FOR THE DEBTORS

COMMONWEALTH OF PUERTO RICO

Basic Financial Statements
and Required Supplementary Information

June 30, 2018

(With Independent Auditors' Report Thereon)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2018

Commonwealth of Puerto Rico

Honorable Pedro Pierluisi Urrutia
Governor

Prepared by:

Puerto Rico Department of the Treasury

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Independent Auditors' Report

The Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following entities and funds:

- *Governmental Activities*
  - Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico, Office of Legislative Services, Office for the Improvement of Public Schools, Superintendence of the Capitol Building, Puerto Rico House of Representatives, Puerto Rico Senate, Puerto Rico Public Housing Administration, Puerto Rico Housing Finance Department – Sales and Acquisition Fund, and Puerto Rico Department of Economic Development and Commerce, which collectively represent 8.06% and 2.65% of the total assets and revenues, respectively, of the General Fund.
  - Puerto Rico Maritime Shipping Authority, Special Communities Perpetual Trust special revenue and debt service funds, Public Buildings Authority, University of Puerto Rico Comprehensive Cancer Center, Puerto Rico Infrastructure Financing Authority, The Children's Trust, Puerto Rico Fiscal Agency and Financial Advisory Authority, and Ponce Authority, which are non-major governmental funds that represent 20.59% and 8.61% of the total assets and revenues, respectively, of the aggregate remaining fund information.

  These entities and funds collectively represent 35.26% and 3.03% of the total assets and revenues, respectively, of the governmental activities.

- *Business-Type Activities*
  - Unemployment Insurance Fund, which is a major enterprise fund.
  - Puerto Rico Health Insurance Administration, which is a major enterprise fund.
  - Puerto Rico Medical Services Administration, which is a major enterprise fund.

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– The Additional Lottery System, the Puerto Rico Water Pollution Control Revolving Fund, Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, the Governing Board of 9-1-1 Services, Disability Insurance Fund, Drivers' Insurance Fund, and Ponce Ports Authority, which are non-major enterprise funds that collectively represent 25.93% and 51.58% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities and funds collectively represent 97.04% and 92.09% of the total assets and revenues, respectively, of the business-type activities.

- *Aggregate Discretely Presented Component Units*

  The discretely presented component units listed in note 1(c) to the basic financial statements. These entities collectively represent 74.93% and 59.56% of the total assets and revenues, respectively, of the aggregate discretely presented component units.

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the entities and funds indicated above, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion unit	Type of opinion
Governmental activities	Unmodified
Business-type activities	Unmodified
Aggregate discretely presented component units	Qualified
General fund	Unmodified
Debt service fund	Unmodified
ERS Special evenue fund	Unmodified
COFINA Special revenue fund	Unmodified
COFINA Debt service fund	Unmodified
Unemployment insurance fund	Unmodified
Puerto Rico Health Insurance Administration Fund	Unmodified
Puerto Rico Medical Services Administration Fund	Unmodified
Aggregate remaining fund information	Qualified

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Basis for Qualified Opinions (Scope Limitation) for Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information

Basis for Qualified Opinions – Unaudited Contingency and Compensated Absences Amounts

We were unable to obtain sufficient appropriate audit evidence regarding an accrual for legal contingency of approximately $212 million and regarding accrued compensated absences in the amount of approximately $108 million recorded in the 2018 financial statements of the Puerto Rico Electric Power Authority (PREPA), a discretely presented component unit of the Commonwealth.

Basis for Qualified Opinions – Unaudited Pension Amounts

The Additional Lottery Fund and the Governing Board of 9-1-1 Fund, which were audited by other auditors, applied the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* in their respective separately issued financial statements. However, based on the lack of availability of audited pension amounts from the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico at the time of the respective issuance of their financial statements, the other auditors qualified their opinions due to the lack of sufficient appropriate audit evidence on the pension amounts, including net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. Accordingly, we were not able to obtain sufficient appropriate audit evidence about the pension amounts included in the financial statements of the Aggregate Remaining Fund Information. The net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense included for these funds in the financial statements of the Aggregate Remaining Fund Information for the Commonwealth were $61.2 million, $20.1 million, $1.2 million, and $0, respectively.

Basis for Qualified Opinions – Unaudited Cash Balance

The financial statements of the Disability Insurance Fund and the Driver's Insurance Fund (the Disability and Driver's Funds) as of June 30, 2018 were audited by other auditors, whose report thereon, dated March 21, 2019, include a " Basis of Qualified Opinion" paragraph stating that the Disability and Driver's Funds did not maintain adequate accounting records and reconciliation procedures over its cash held by the Puerto Rico Secretary of Treasury amounting to $60.7 million as of June 30, 2018, and were unable to obtain sufficient appropriate audit evidence regarding such balance. Accordingly, we were also unable to obtain sufficient appropriate audit evidence regarding the adequacy of such balances included in the financial statements of the Aggregate Remaining Fund Information of the Commonwealth as of June 30, 2018.

Qualified Opinions

In our opinion, based on our audit and the report of other auditors, except for the possible effects of the matters described in the "Basis for Qualified Opinions (Scope Limitation) for Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and aggregate remaining fund information as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Unmodified Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Commonwealth of Puerto Rico as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern – Primary Government

The accompanying basic financial statements have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in note 2(a) to the basic financial statements, the Commonwealth is in the midst of a fiscal, economic and liquidity crisis, an economic recession, high unemployment rate, a population decline, high levels of debt and pension related obligations, and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Additionally, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in note 2(a). The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions on the basic financial statements are not modified with respect to this matter.

Uncertainty about Ability to Continue as a Going Concern – Major Discretely Presented Component Units

The accompanying basic financial statements have been prepared assuming that the major discretely presented component units of the Commonwealth will continue as a going concern. As discussed in note 2(b) to the basic financial statements, the Commonwealth has stated that substantial doubt exists for the following major discretely presented component units to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to these matters are described in note 2(b) to the basic financial statements. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinions on the basic financial statements are not modified with respect to these matters.

- *Government Development Bank for Puerto Rico (GDB)*

  The financial statements of GDB as of June 30, 2018 and for the year then ended were audited by other auditors, whose report thereon, dated March 2, 2021, included an emphasis of matter paragraph related to GDB's ability to continue as a going concern. As stated in GDB's independent auditors' report, the Commonwealth and its component units have not been able to repay their loans from the GDB, which has significantly affected GDB's liquidity and ability to repay its obligations. In addition, on March 23, 2018, GDB ceased its operations and determined to wind down in an orderly fashion under Title VI of PROMESA.

- *Puerto Rico Highways and Transportation Authority (PRHTA)*

  The financial statements of PRHTA as of June 30, 2018 and for the year then ended were audited by other auditors, whose report thereon, dated March 25, 2019, included an emphasis of matter paragraph related to PRHTA's ability to continue as a going concern. As stated in PRHTA's independent auditors' report, PRHTA has had significant recurring losses from operations, does not have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on the payments of principal and interest on multiple bond series and lines of credits. Also, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a case for PRHTA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico.

- *Puerto Rico Electric Power Authority (PREPA)*

  PREPA has an accumulated deficit of approximately $6.8 billion as of June 30, 2018, does not currently have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on the payment of various debt obligations. Also, on July 2, 2017, the Oversight Board, at the request of the Governor, filed a petition on behalf of PREPA for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico.

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- *University of Puerto Rico (UPR)*

  The financial statements of UPR as of June 30, 2018, and for the year then ended were audited by other auditors, whose report thereon, dated April 29, 2019, included an emphasis of matter paragraph related to UPR's ability to continue as a going concern. As stated in UPR's independent auditors' report, UPR is highly dependent on the Commonwealth's appropriations to finance its operations.

Restatement of Net Position

As discussed in note 4 to the basic financial statements, the net position of the aggregate discretely presented component units as of July 1, 2017 has been restated to correct misstatements. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in notes 1(bb) and 4 to the basic financial statements, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Change in Reporting of Pension Trust Funds

As discussed in notes 1(b), 4, and 18 to the basic financial statements, as a result of the enactment of Act 106 of August 23, 2017, the pension trust funds established to pay the accumulated pension benefits of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, the Puerto Rico System of Annuities and Pensions for Teachers, and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, were eliminated and the legacy trust funds are now reported as blended component units within governmental activities. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 7 through 27; the schedules of changes in the net pension liability for single-employer pension plans on pages 258 and 259; the schedule of proportionate share of the net pension liability of a cost-sharing multiple-employer pension plan on page 260; the schedule of employers' contributions for all pension plans on page 261; the schedule of changes in total other postemployment benefits liability and related ratios for single-employer pension plans on pages 262–264; and the schedule of revenue and expenditures – budget and actual–budgetary basis – General Fund on page 265, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We were unable to apply certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, due to the matters described in the "Basis for Qualified Opinions (Scope Limitation) for Aggregate Remaining Fund Information", and the "Basis for Qualified Opinion (Departure from U.S. Generally Accepted Accounting Principles) for Aggregate Remaining Fund Information". Additionally, although our opinions on the basic financial statements are not affected, the financial statement amounts included in the management's discussions and analysis contain material departures from U.S. generally accepted accounting principles because they do not include pension and OPEB amounts for certain entities and funds that did not apply the provisions of GASB Statement No. 68 and GASB Statement No. 75, respectively. We do not express an opinion or provide any assurance on the information.

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We and the other auditors have applied certain limited procedures to the schedules of changes in the net pension liability for single-employer pension plans; the schedule of the Commonwealth's proportionate share of the net pension liability of a cost-sharing multiple employer pension plan; the schedule of employers' contributions for all pension plans; the schedules of changes in total other postemployment benefits liability and related ratios for single-employer pension plans; the and the schedule of revenue and expenditures - budget and actual - budgetary basis - General Fund, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the matters described above in the "Basis for Qualified Opinions (Scope Limitation) for Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information" and, the "Basis for Qualified Opinion (Departure from U.S. Generally Accepted Accounting Principles) for Aggregate Remaining Fund Information" paragraphs, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

San Juan, Puerto Rico
June 30, 2021

Stamp No. E434360 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the Commonwealth) for the fiscal year ended June 30, 2018. The MD&A is intended to serve as an introduction to the Commonwealth basic financial statements, which have the following components: (1) Government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Commonwealth's financial activities, (c) present an overview of results for the General Fund on a budgetary basis, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Commonwealth's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The Commonwealth's Primary Government, which encompasses the Commonwealth's Governmental and Business-type activities, reported, in the government-wide financial statements, a net deficit of approximately $72.5 billion at June 30, 2018, which was comprised of approximately $21.1 billion in total assets and approximately $7.8 billion in deferred outflows of resources, less approximately $96 billion in total liabilities and approximately $5.3 billion in deferred inflows of resources.
- The net deficit of the Commonwealth's Primary Government decreased by approximately $1.1 billion during fiscal year 2018. The net deficit for Governmental Activities decreased by approximately $893.3 million and the net position for Business-type activities increased by approximately $223.9 million during the fiscal year 2018.
- The Commonwealth's Governmental Activities had total revenue of approximately $19 billion for fiscal year 2018, which was higher than total expenses of approximately $17.7 billion. The Commonwealth's Business-type activities had total revenue of approximately $3.6 billion for fiscal year 2018, which represented an increase of approximately $388.2 million when compared to fiscal year 2017.
- The Commonwealth's Primary Government had total expenses of approximately $21.5 billion in fiscal year 2018, which included expenses of approximately $3.8 billion incurred by Business-type activities, which represented a decrease of approximately $2.2 billion when compared to total expenses incurred during fiscal year 2017 (as restated).
- For fiscal year 2018, the total excess of revenue over expenditures in the General Fund (budgetary basis) was approximately $511 million. It consisted of the difference between total actual revenue of approximately $9.6 billion (excluding other financing sources), less total actual expenditures of approximately $9.1 billion. The variance between the U.S. generally accepted accounting principles (U.S. GAAP) and budgetary basis deficits results from differences of accounting, entity, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these basic financial statements.

The Commonwealth's management believes that as of June 30, 2018 there is substantial doubt as to the ability of the Primary Government to continue as a going concern in accordance with Governmental Accounting Standards Board (GASB) Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. In addition, the Commonwealth's pension trust funds, blended component units of the Commonwealth, are severely underfunded. As a result of the fiscal difficulties faced by the Commonwealth, on May 3, 2017 the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), at the request of the Commonwealth, filed a petition for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). For additional information regarding going concern, uncertainties and liquidity risk, refer to Note 2 and Note 3.

Reporting the Commonwealth as a Whole

The Commonwealth consists of all departments, agencies, funds, functions, and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential discretely presented component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. As noted above, the Commonwealth's basic financial statements consist of three components: (i) government-wide financial statements, which includes the Commonwealth's discretely presented component units, (ii) fund financial statements, and (iii) notes to the basic financial statements. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this MD&A. The notes to the basic financial statements provide explanations and/or additional detail for all of the above types of financial statements and are considered an integral part of the basic financial statements.

The following table summarizes the major features of the basic financial statements:

	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Governmental activities, business type activities and discretely presented component units.	The activities of the Commonwealth that are not proprietary of fiduciary, including education, health, public safety services among others.	Activities of the Commonwealth that operate similar to private business including Lotteries.	Instances in which the Commonwealth is the trustee or agent for someone else's resources.
Required financial Statements	Statement of net position and statement of activities.	Balance sheet and statement of revenue expenditures, and changes in fund balances.	Statement of net position; statement of revenue, expenses and changes in fund net position; and statement of cash flows.	Statements of fiduciary net position.

	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Accounting basis and measurement focus	Accrual basis and economic resources measurement focus.	Modified accrual basis and current financial resources measurement focus.	Accrual basis and economic resources measurement focus.	Accrual basis and economic resources measurement focus.
Type of assets/liability information	All assets and liabilities, both financial and capital, and both short-term and long-term.	Only assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term obligations are included.	All assets and liabilities, both financial and capital, and both short-term and long-term.	All assets and liabilities, both financial and capital, and both short-term and long-term.
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid.	Revenue for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenue and expenses during the year, regardless of when cash is received or paid.	All revenue and expenses during the year, regardless of when cash is received or paid.

Government-wide Financial Statements

The government-wide financial statements provide readers a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This means they follow methods that are similar to those used by most private businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

The government-wide financial statements include two statements:

- ***Statement of Net Position*** – This statement presents all of the government's assets, liabilities, and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Commonwealth's net position may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.
- ***Statement of Activities*** – This statement presents information showing how the Primary Government's and its discretely presented component units' net position changed during the most recent fiscal year. All changes

in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the Commonwealth.

The Commonwealth's net position is one way to measure whether the Commonwealth's financial health is improving or deteriorating, but other nonfinancial factors, such as changes in the Commonwealth tax structure, population, employment, debt levels, fiscal conditions, economic factors, access to external markets and the condition of the Commonwealth's roads, bridges and buildings, must also be taken into account in order to assess the overall health of the Commonwealth.

In the statement of net position and the statement of activities, the operations of the Commonwealth are divided into the following activities:

- ***Governmental Activities*** – Most of the Commonwealth's basic services are reported here, including education, health, public housing and welfare, public safety, economic development, general government and interest on long-term- debt. Federal grants (intergovernmental), personal and corporate income taxes, consumption and use taxes, business and other taxes, transfers from lottery revenues, and bond or loan proceeds finance most of these activities. Also included in Governmental Activities are fifteen blended component units, which are entities that, while legally separate from the Commonwealth, meet the blending criteria under GASB to be reported as part of the Primary Government.
- ***Business-type Activities*** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These Business-type activities of the Commonwealth include the operations of the following major funds: the Unemployment Insurance Trust Fund, the Puerto Rico Health Insurance Administration (PRHIA), and the Puerto Rico Medical Services Administration (PRMeSA).
- ***Discretely Presented Component Units*** – Although legally separate from the Commonwealth, these discretely presented component units are important to the Commonwealth because the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. Discretely presented component units, presented in a separate column in these basic financial statements, are discretely presented principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because such discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. The Commonwealth classifies 45 separate legal entities as discretely presented component units, as disclosed in Note 1 to the basic financial statements.

The government-wide financial statements can be found immediately following this MD&A.

Governmental and Proprietary Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Commonwealth's financial position and activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Commonwealth government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs

from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare the fund financial statements are different from the perspective and basis of accounting used to prepare the government-wide financial statements. The Commonwealth's governmental and proprietary funds types use different perspectives and accounting basis. The funds presented in the fund financial statements are categorized as either major or nonmajor funds as required by U.S. GAAP. All of the funds of the Commonwealth can be divided into the following categories:

- ***Governmental Funds*** – Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements that use the full accrual basis of accounting, the governmental funds financial statements use a modified accrual basis of accounting (also known as the current financial resources measurement focus), which focuses on near-term inflows and outflows of expendable resources. This information may be useful in evaluating the government's near-term financing requirements. These statements provide a detailed short-term view of the Commonwealth's finances and assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By comparing the governmental funds financial statements to the Governmental Activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Governmental Activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

  The Commonwealth has five major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures, and changes in fund balances. The Commonwealth's five major governmental funds are:

  - General Fund [1]
  - Debt Service Fund
  - ERS Special Revenue Fund
  - COFINA Special Revenue Fund
  - COFINA Debt Service Fund

The remaining nonmajor governmental funds, which consist of funds from the blending of the Ponce Authority (PA), Public Buildings Authority (PBA), Puerto Rico Infrastructure Financing Authority (PRIFA), Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), Puerto Rico Maritime Shipping Authority (PRMSA), Puerto

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[1] The General Fund is the primary operating fund of the Commonwealth. The financial resources received and used in the General Fund mostly includes: the General Fund budgeted resources, as approved by the Legislature of Puerto Rico (the Legislature) and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, pledged funds, resources that otherwise would be accounted for in special revenue funds, and agencies with independent treasuries.

Rico System of Annuities and Pensions for Teachers (TRS), Retirement System of the Judiciary of the Commonwealth of Puerto Rico (JRS), Special Communities Perpetual Trust (SCPT), The Children's Trust, and University of Puerto Rico Comprehensive Cancer Center (UPRCCC) blended component units, and the Commonwealth's capital project funds, which are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- ***Proprietary Funds*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are also known as enterprise funds. Proprietary funds provide the same type of information as the Business-type activities in the government-wide financial statements, but in more detail. As with government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for Business-type activities and the proprietary funds financial statements.

  The Commonwealth has three major proprietary funds:

  - Unemployment Insurance Fund
  - Puerto Rico Health Insurance Administration (PRHIA)
  - Puerto Rico Medical Service Administration (PRMeSA)

  Other nonmajor proprietary funds consist of the Disability Insurance Fund, Drivers' Insurance Fund, the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System, Puerto Rico Water Pollution Control Revolving Fund (PRWPCRF), Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (PRSDWTRLF), Ponce Ports Authority (PPA), and the Bureau of Emergency Services 9-1-1 which are grouped and presented in a separate column in the proprietary funds' financial statements. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major discretely presented component units' combining financial statements.

Required Supplementary Information/Supplementary and Other Information (Unaudited)

The basic financial statements include a section of required supplementary information and other information immediately following its notes. This section includes information of total other postemployments benefits liability schedules, net pension liability schedules, pension contribution schedules, schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund, supplemental schedule of expenditures by agency – budget and actual – budgetary basis – General Fund, combining schedules for nonmajor governmental funds, nonmajor proprietary funds, changes in assets and liabilities – agency fund, and nonmajor discretely presented component units.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Overall Financial Position and Results of Operations (Government-wide financial statements)

The following is an analysis of the financial position and changes in the financial position of the Commonwealth's Governmental Activities and Business-type activities for fiscal year 2018.

Net Position

Condensed financial information from the statement of net position as of June 30, 2018 and 2017 is as follows (in thousands):

	Governmental Activities		Business-type Activities		Primary Government	
	2018	2017 (As restated)	2018	2017 (As restated)	2018	2017 (As restated)
Assets:						
Non-capital assets:						
Cash and investments	$ 6,370,623	4,492,844	928,431	973,603	7,299,054	5,466,447
Receivables, net	4,175,126	2,984,350	1,190,948	721,738	5,366,074	3,706,088
Other	97,754	109,392	43,828	46,800	141,582	156,192
Total non-capital assets	10,643,503	7,586,586	2,163,207	1,742,141	12,806,710	9,328,727
Capital Assets	8,171,366	8,499,268	92,165	89,646	8,263,531	8,588,914
Total assets	**18,814,869**	**16,085,854**	**2,255,372**	**1,831,787**	**21,070,241**	**17,917,641**
Deferred outflows of resources	**7,558,998**	**7,853,422**	**242,398**	**199,308**	**7,801,396**	**8,052,730**
Liabilities:						
Long-term liabilities	87,190,513	91,318,812	1,689,425	1,683,394	88,879,938	93,002,206
Other liabilities	6,725,488	5,182,305	438,469	282,469	7,163,957	5,464,774
Total liabilities	**93,916,001**	**96,501,117**	**2,127,894**	**1,965,863**	**96,043,895**	**98,466,980**
Deferred inflows of resources	**5,219,576**	**1,093,202**	**96,152**	**15,498**	**5,315,728**	**1,108,700**
Net Position:						
Net investment in capital assets	2,189,585	2,614,621	71,739	69,993	2,261,324	2,684,614
Restricted	711,761	886,768	1,070,149	1,025,530	1,781,910	1,912,298
Unrestricted (deficit)	(75,663,056)	(77,156,432)	(868,164)	(1,045,789)	(76,531,220)	(78,202,221)
Total net position (deficit)	**$ (72,761,710)**	**(73,655,043)**	**273,724**	**49,734**	**(72,487,986)**	**(73,605,309)**

Governmental entities are required by U.S. GAAP to report on their net position. The statement of net position presents the value of all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position.

Net position (deficit) may serve over time as a useful indicator of a government's financial position. Total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources of the Primary Government as of June 30, 2018 amounted to approximately $28.9 billion and $101.4 billion, respectively, for a net deficit of approximately $72.5 billion as of June 30, 2018, compared to a net deficit of approximately $73.6 billion as of June 30, 2017 (as restated).

Net position (deficit) for Governmental Activities increased by approximately $893.3 million for fiscal year 2018, decreasing to a deficit of approximately $72.8 billion at June 30, 2018 from a deficit of approximately $73.7 billion at June 30, 2017 (as restated). The unrestricted deficit for Governmental Activities – that part of net position that can be used to finance day-to-day- governmental operations without constraints established by debt covenants, enabling legislation, or other legal requirements – had a deficit of approximately $75.7 billion as of June 30, 2018. The unrestricted deficit in Governmental Activities, which decreased by approximately $1.5 billion, exists primarily because of cumulative excessive operating expenses in disparity with actual revenues. This deficit can be expected to continue for as long as the Commonwealth continues to have obligations outstanding for purposes other than the acquisition of governmental capital assets. The statement of net position in Governmental Activities reflects outstanding bonds and notes amounting to approximately $44 billion and net pension liability amounting to approximately $38.8 billion as of June 30, 2018, as compared to outstanding bonds and notes amounting to approximately $43.8 billion and net pension liability amounting to approximately $42.5 billion as of June 30, 2017 (as restated).

A portion of the Commonwealth's net position reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets. The Commonwealth uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending, and except for Business-type assets, do not generate direct revenue for the Commonwealth. They do represent, however, an obligation on the part of the Commonwealth to maintain these assets into the future. Although the Commonwealth investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since most of the capital assets themselves cannot be used to liquidate these liabilities.

The net position in Business-type activities increased by approximately $224 million in fiscal year 2018 when compared to fiscal year 2017 (as restated), from approximately a $49.7 million net position at June 30, 2017 to approximately a $273.7 million net position at June 30, 2018. The principal reason for the increase in net position is related to an increase in U.S. government grants of approximately $472 million in PRHIA.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Statements of Activities and Results of Operations

Condensed financial information of the statements of activities for the years ended June 30, 2018 and 2017 is as follows (in thousands):

	Governmental Activities		Business-type Activities		Primary Government	
	2018	2017 (As restated)	2018	2017 (As restated)	2018	2017 (As restated)
Revenue:						
Program revenue:						
Charges for services	$ 685,576	806,431	1,211,133	1,288,849	1,896,709	2,095,280
Operating grants and contributions	6,939,623	6,238,213	2,345,463	1,874,790	9,285,086	8,113,003
Capital grants and contributions	86,205	84,033	—	—	86,205	84,033
	7,711,404	7,128,677	3,556,596	3,163,639	11,268,000	10,292,316
General revenue:						
Taxes	10,967,788	10,498,158	—	—	10,967,788	10,498,158
Revenue from global tobacco settlement agreement	77,842	72,266	—	—	77,842	72,266
Revenue from component units	60,170	75,118	—	—	60,170	75,118
Other, including earning (loss) on investments	254,923	1,193,254	18,270	22,999	273,193	1,216,253
	11,360,723	11,838,796	18,270	22,999	11,378,993	11,861,795
Total revenue	**19,072,127**	**18,967,473**	**3,574,866**	**3,186,638**	**22,646,993**	**22,154,111**
Expenses:						
General government	1,256,379	4,099,363	—	—	1,256,379	4,099,363
Public safety	2,091,586	1,899,922	—	—	2,091,586	1,899,922
Health	3,132,748	2,704,463	—	—	3,132,748	2,704,463
Public housing and welfare	3,717,727	3,401,413	—	—	3,717,727	3,401,413
Education	3,232,296	4,666,257	—	—	3,232,296	4,666,257
Economic development	1,416,995	815,469	—	—	1,416,995	815,469
Intergovernmental	312,013	397,993	—	—	312,013	397,993
Interest and other	2,572,119	2,420,007	—	—	2,572,119	2,420,007
Unemployment insurance	—	—	151,281	122,642	151,281	122,642
Puerto Rico Health Insurance Administration	—	—	2,907,650	2,791,508	2,907,650	2,791,508
Puerto Rico Medical Services Administration	—	—	232,484	231,299	232,484	231,299
Nonmajor proprietary funds	—	—	506,392	174,554	506,392	174,554
Total expenses	**17,731,863**	**20,404,887**	**3,797,807**	**3,320,003**	**21,529,670**	**23,724,890**
Increase (decrease) in net position before transfers	**1,340,264**	**(1,437,414)**	**(222,941)**	**(133,365)**	**1,117,323**	**(1,570,779)**
Transfers	**(446,931)**	**(724,650)**	**446,931**	**724,650**	**—**	**—**
Change in net position	**893,333**	**(2,162,064)**	**223,990**	**591,285**	**1,117,323**	**(1,570,779)**
Net position (deficit), beginning of year, as adjusted (note 4)	**(73,655,043)**	**(71,492,979)**	**49,734**	**(541,551)**	**(73,605,309)**	**(72,034,530)**
Net position (deficit), end of year	**$ (72,761,710)**	**(73,655,043)**	**273,724**	**49,734**	**(72,487,986)**	**(73,605,309)**

As described above, the Governmental Activities net deficit position decreased from approximately $73.7 billion at June 30, 2017 (as restated) to approximately $72.8 billion at June 30, 2018, a decrease of approximately $893.3 million. The decrease in total net deficit position is mainly due to a decrease in pension expense related to changes in net pension liability, deferred inflow and outflow of resources of approximately $615 million when compared with prior year related expense. Approximately 57% of the Governmental Activities' revenue came from taxes, while approximately 37% resulted from grants and contributions (primarily federal financial assistance). Charges for services represented approximately 4% of total revenue. The Governmental Activities' expenses cover a range of governmental services. The largest expenses were for public housing and welfare 21% of total expenses,education 18% of total expenses, general government 7% of total expenses, health 18% of total expenses, and public safety 12% of total expenses. In fiscal year 2018, Governmental Activities' expenses, which amounted to approximately $17.7 billion, were funded by approximately $11.4 billion in general revenue, and approximately $7.7 billion in program revenue (comprised primarily of federal financial assistance). Also, the implementation of Act No. 66-2014, known as the "Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act "contributed to a reduction in expenses in areas such as:

- Reduction in payroll and payroll related expenses.
- Freeze formula base contributions to the University of Puerto Rico, the Commonwealth's Judicial Branch and the Municipalities.
- Reduction in education expenses, such as, a reduction in school transportation services, payroll savings on account of teacher's retirement system and no contracting to fill vacancies.
- Reduction of special appropriations.
- Elimination of certain subsidies to programs or operations of discretely presented component units.

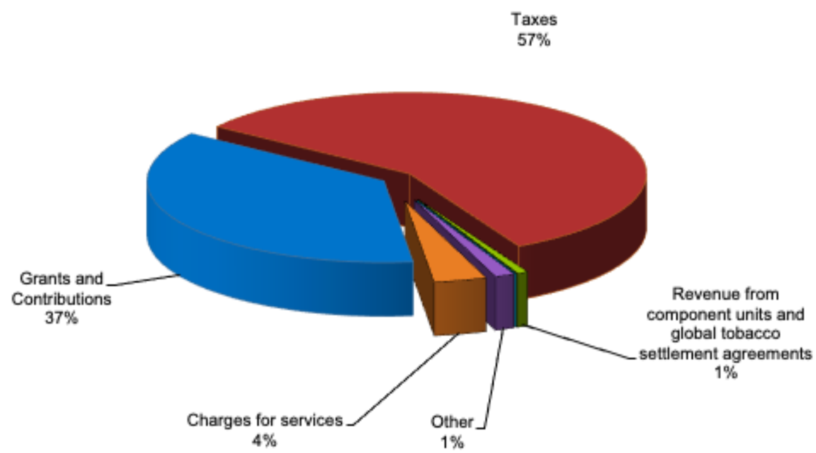
Total revenue from Governmental Activities for fiscal year 2018 increased by approximately $104.7 million compared to fiscal year 2017. This increase is mainly related to a increase in operating grants and contributions and taxes. The Commonwealth suffers from a fiscal, economic and liquidity crisis, an economic recession (which commenced in 2006), a high unemployment rate, a population decline, and a high level of debt and pension -related obligations.

COMMONWEALTH OF PUERTO RICO

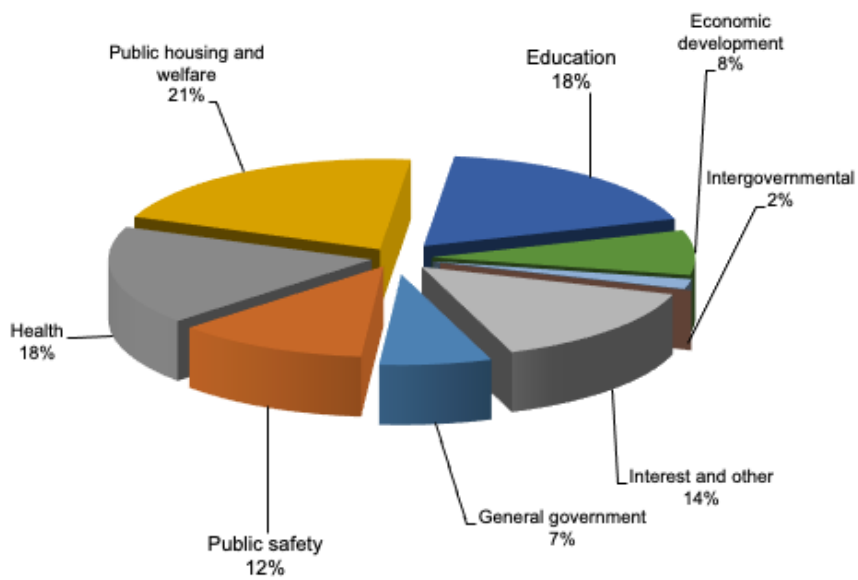
Management's Discussion and Analysis (Unaudited)

June 30, 2018

Revenues – Governmental Activities



Expenses – Governmental Activities



Business-type activities' total net position increased by approximately $224 million from the total net position at June 30, 2017. Approximately 34% of the Business-type activities total revenue came from charges for services, while approximately 66% resulted from grants and contributions (primarily federal financial assistance). Business-type activities expenses cover a range of services. The largest expenses were for lotteries and Health Insurance Administration. In fiscal year 2018, Business-type Activities' total expenses exceeded revenue by approximately $222.9 million. The excess of expenses over revenue in fiscal year 2018 was decreased by net transfers from other funds, mainly by the Governmental Activities, amounting to approximately $446.9 million. Total expenses increased by approximately $477.8 million in comparison with prior year expenses, since there was no recovery of provision of loan losses recognized during fiscal year 2018 in comparison with fiscal year 2017 were a recovery of approximately $434.4 million was recognized.

Governmental Funds

The governmental funds financial statements provide information on near-term- inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2018, the Commonwealth's governmental funds, which include the General Fund, the Debt Service Fund, ERS Special Revenue Fund, the COFINA Special Revenue Fund, the COFINA Debt Service Fund, and nonmajor governmental funds, reported a combined ending fund balance of approximately $808.9 million. In fiscal year 2018, revenue in these governmental funds exceeded expenditures by approximately $211.6 million. However, this excess of revenue over expenditures was offset by other financing uses totaling approximately $424.6 million in the governmental funds. For fiscal year 2018, the excess of revenue over expenditures increased by approximately $1.5 billion when compared with the prior year, primarily as a result of an increase in intergovernmental revenue of approximately $623 million and a reduction of approximately $551 million of pension benefits that are being paid by other employers as a result of Act 106-2017 that changed the pension benefits payment to a PayGo system.

The General Fund is the chief operating fund of the Commonwealth. At the end of fiscal year 2018, the General Fund, which encompasses other financial resources outside the General Fund budget such as federal funds, pledged funds, special revenue funds, and agencies with independent treasuries, had a total fund balance of approximately $1.4 billion. The fund balance of the Commonwealth's General Fund increased by approximately $1.5 billion as a result of the fiscal year's change in financial position. The non-payments of general obligation bonds due during fiscal year 2018 of approximately $1.1 billion are the main reason for the increase in the fund balance.

The Debt Service Fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term general obligations debt. The net change in fund balance of the debt service fund was approximately $1 billion in fiscal year 2018, and the fund deficit at the end of year decreased to approximately $1.9 billion at June 30, 2018. Bonds and interest payable during fiscal year 2018 decreased by approximately $64 thousand when compared with fiscal year 2017 as a result of the non-payment of general obligation bonds due during fiscal year 2018. However, as of the commencement of the Commonwealth's Title III case on May 3, 2017, interest stopped accruing on the Commonwealth's bonds and other indebtedness. Therefore, the accounting treatment of the Commonwealth's accrued interest may have to change after the Commonwealth debts are adjusted under a Title III plan of adjustment.

The ERS Special Revenue Fund is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund after the legal proceedings under the Title III of PROMESA are completed.

The fund balance of the ERS Special Revenue Fund decreased by approximately $52 million in fiscal year 2018, decreasing to a fund balance of approximately $1.2 billion at June 30, 2018.

The COFINA Special Revenue Fund is used to account for and report all financial resources of the Puerto Rico Sales Tax Financing Corporation (COFINA). The fund balance of the COFINA Special Revenue Fund decreased by approximately $167 thousand in fiscal year 2018, decreasing to a fund balance of approximately $6.2 million at June 30, 2018. The COFINA Debt Service Fund is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations of COFINA. The fund balance of the COFINA Debt Service Fund increased by approximately $4.5 million during fiscal year 2018, to approximately $306.9 million at June 30, 2018. COFINA had its debts adjusted under the COFINA Plan of Adjustment pursuant to Title III of PROMESA.

Proprietary Funds

The Commonwealth's enterprise funds provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Insurance Fund's total net position balance increased from approximately $536.5 million at June 30, 2017 to approximately $566.1 million at June 30, 2018, an increase of approximately $29.6 million in one year. Expenses from the fund for unemployment benefits increased by approximately $28.6 million, as compared to fiscal year 2017.

The PRHIA enterprise fund total net position increased from a deficit of approximately $7.3 million at June 30, 2017 (as restated) to a net position of approximately $202.2 million at June 30, 2018, an increase of approximately $209.5 million. Expenses from the fund for medical premiums and claims increased by approximately $102.2 million, as compared to fiscal year 2017.

The PRMeSA enterprise fund net position increased from a deficit of approximately $961.3 million at June 30, 2017 (as restated) to a deficit of approximately $993 million at June 30, 2018, an increase of approximately $31.7 million. During fiscal years 2018 and 2017 the fund has experienced operating losses of approximately $96 million and $87 million, respectively.

General Fund Budgetary Highlights

The Commonwealth Constitution requires the Governor of Puerto Rico (the Governor) to submit a balanced budget that contains a plan of expenditures for the ensuing fiscal year and identifies the anticipated revenues and other resources enough to meet the proposed expenditures. The Commonwealth adopts an annual appropriations budget for its General Fund. A budgetary comparison schedule has been provided on page 265 as required supplementary information for the General Fund to demonstrate compliance with this budget. The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund presents only the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP.

Total General Fund actual revenue on a budgetary basis for fiscal year 2018 was approximately $9.6 billion (excluding other financing sources), representing an increase of approximately $110.2 million, or 1.2%, from original budgeted revenue and an increase of approximately $400 million or 4% from actual revenue of approximately $9.2 billion for fiscal year 2017.

Total General Fund actual expenditures on a budgetary basis for fiscal year 2018 were approximately $9.1 billion, representing a decrease of approximately $471 million or 5% from original budgeted expenses and an increase of approximately $465 million or 5% from actual expenditures of approximately $8.6 billion for fiscal year 2017.

For fiscal year 2018, the budgeted excess of revenue over expenditures (budgetary basis) was approximately $511 million, consisting of the difference between total actual revenue of approximately $9.6 billion and total

actual expenditures of approximately $9.1 billion. For fiscal year 2017, the excess of revenue over expenditures (budgetary basis) was approximately $577 million, consisting of the difference between total actual revenue of approximately $9.2 billion and total actual expenditures of approximately $8.7 billion. The budgeted excess of revenue over expenditures (budgetary basis) for fiscal year 2018 decreased by approximately $66 million when compared to the surplus of fiscal year 2017 and decreased by approximately $251 million when compared to the excess of revenue over expenditures (budgetary basis) of approximately $726 million in fiscal year 2016.

For fiscal year 2018, the total excess of revenue over expenditures in the General Fund (budgetary basis) was approximately $511 million. It consisted of the difference between actual revenue of approximately $9.6 billion (excluding other financing sources), less of total expenditures of approximately $9.1 billion. This surplus of approximately $511 million in the General Fund (budgetary basis) differs from the excess of revenue over expenditures in the General Fund on a modified accrual basis (U.S. GAAP) of approximately $2.3 billion, which was offset by approximately $489.1 million in other financing uses, principally consisting of transfers to other funds, for a resulting net increase in fund balances of approximately $1.8 billion for the fiscal year 2018. The variance between the U.S. GAAP and budgetary basis deficiency results from differences in the basis of accounting, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these basic financial statements. Examples of such differences include: (i) recognition of proceeds of long-term- debt issued as other financing sources, (ii) recognition of receivables (revenue) for reimbursements of expenses allocated to federal funds, (iii) the recognition of revenue and expenditures of entities with independent treasuries, (iv) expenditures incurred in nonbudgetary funds (special revenue funds, internal revenue funds, and other funds), which were not included in the General Fund Budget, and (v) timing differences in basis of accounting such as (a) the recognition of receivables on income and corporate taxes and (b) recognition of expenditure accruals. A reconciliation is presented on page 269 in the notes to required supplementary information section. The Commonwealth's ability to continue reducing the deficit will depend in part on its ability to continue raising revenues and reducing expenditures and debt obligations in the face of economic uncertainties.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2018

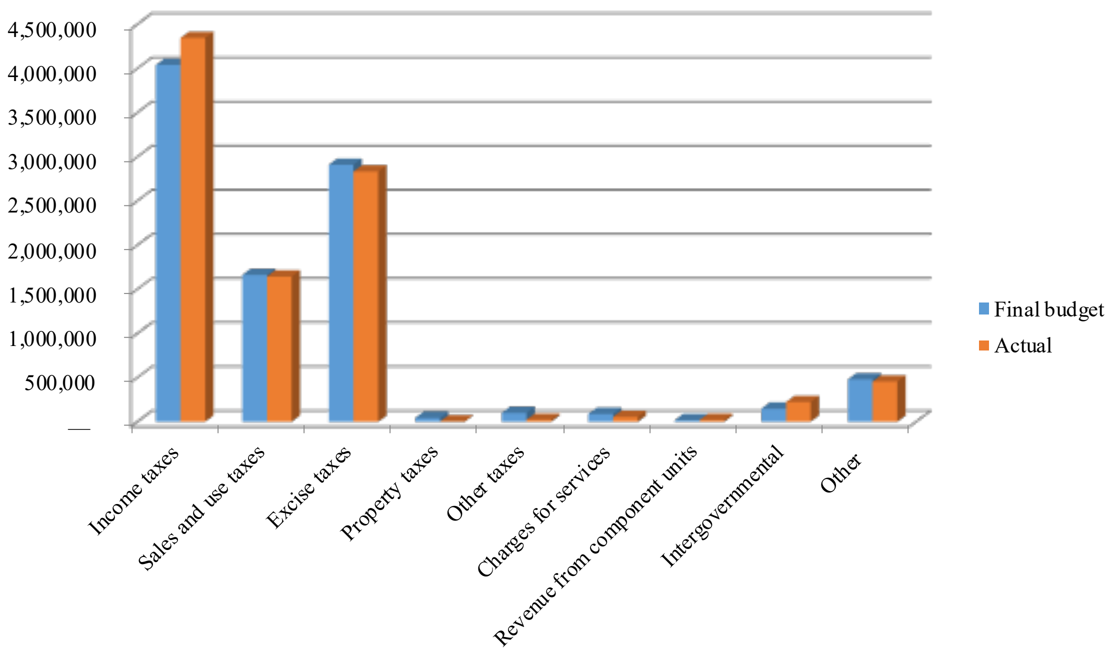
The following information is presented to assist the reader in comparing the final amended budget and the actual results.

Actual Revenue – General Fund

Budgetary Basis

Year ended June 30, 2018

(In thousands)



COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

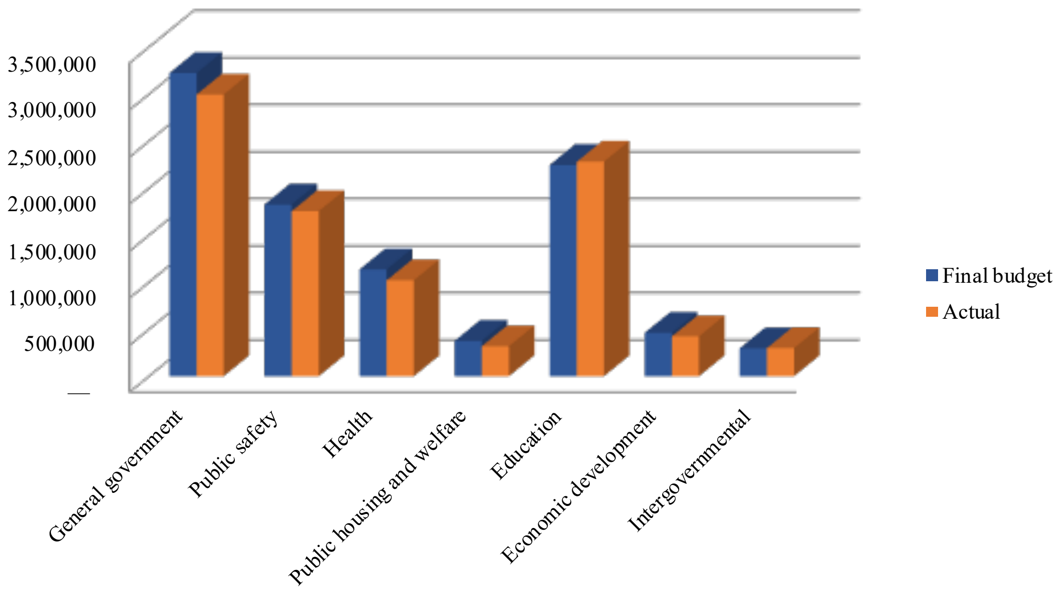
June 30, 2018

Actual Expenditures – General Fund

Budgetary Basis

Year ended June 30, 2018

(In thousands)



For more than a decade, the Commonwealth has had deficiencies of revenues under expenditures (including debt service payments) that were mainly funded through issuances of bonds and lines of credit.

Capital Assets and Debt Administration

Capital Assets

The following is a summary schedule of the Primary Government's capital assets (in thousands):

	Governmental activities		Business-type activities		Total Primary Government	
	2018	2017 (as restated)	2018	2017	2018	2017 (as restated)
Land	$ 934,570	933,883	36,005	36,005	970,575	969,888
Construction in progress	1,137,845	1,094,488	—	—	1,137,845	1,094,488
Buildings and building improvements, net	5,516,203	5,885,926	38,764	40,532	5,554,967	5,926,458
Equipment, furniture, fixtures, vehicles and software, net	185,754	177,152	17,396	13,109	203,150	190,261
Infrastructure, net	396,994	407,819	—	—	396,994	407,819
Total capital assets	$ 8,171,366	8,499,268	92,165	89,646	8,263,531	8,588,914

The Commonwealth's investment in capital assets for its Governmental Activities and Business-type activities as of June 30, 2018 amounted to approximately $14 billion, less accumulated depreciation and amortization of approximately $5.7 billion, resulting in a book value of approximately $8.3 billion. Capital assets include land, constructions in progress, buildings, building improvements, equipment, and infrastructure. Capital assets included in the Governmental Activities column are principally owned by blended component units (e.g., PBA and PRIFA) and are primarily of value only to the Commonwealth, such as public schools, roads, and buildings used for governmental services. Depreciation and amortization expense for its Governmental Activities and Business-type activities amounted to approximately $316 million for the year ended June 30, 2018.

Other infrastructure assets, such as highways, bridges, toll road facilities, water and sewer systems, electricity production, transmission and distribution systems, and similar assets, are owned by discretely presented component units.

Additional information on the Commonwealth's capital assets can be found in Note 11 to the basic financial statements that accompany this report.

Debt Administration – Primary Government

The Commonwealth has incurred long-term debt financing and other obligations, including lease/purchases and contractual obligations where the Commonwealth's legal obligation to make payments is typically subject to and paid from annual appropriations made by the Legislature of Puerto Rico (the Legislature) of the Commonwealth. For example, the debts reported by most blended component units, by Business-type activities and certain discretely presented component units are supported, directly or indirectly, by payments from resources from the Commonwealth's Governmental Activities.

At June 30, 2018, the Primary Government's bonds and notes outstanding amounted to approximately $44 billion, and the discretely presented component units' bonds and notes outstanding amounted to approximately $23.8 billion.

General obligation bonds are backed by the full faith, credit, and taxing power of the Commonwealth. The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth should not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the Commonwealth is in compliance with the 15% limitation at the time of issuance of such guaranteed debt. Internal revenue consists principally of income taxes, sales and use tax, property taxes, and excise taxes. The validity and priority of the Commonwealth's general obligation bonds is the subject of actual and possible litigation in the case filed under Title III of PROMESA by the Oversight Board (as defined herein) on behalf of the Commonwealth.

Certain revenue, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are conditionally allocated to the Puerto Rico Highways Transportation Authority (PRHTA), a discretely

presented component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. Certain of these revenues are subject to ongoing litigation. For additional information on the current status of this litigation, refer to Note 17. In addition, the portion of sales and use tax conditionally allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. Issues related to this matter were resolved under the COFINA Plan of Adjustment.

Debt of certain discretely presented component units (other than bond anticipation notes) such as PREPA and PRASA is supported by operating revenue. However, the debt of certain blended and discretely presented component units is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or conditionally allocated taxes.

Additional information on the Commonwealth's long-term debt can be found in Note 13 to the accompanying basic financial statements.

As a direct result of the economic crisis facing the Commonwealth, Act No. 21-2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act) was enacted on April 6, 2016. Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a debt payment moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities. Pursuant to these executive orders, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Subsequent to the filing of the Commonwealth's Title III case on May 3, 2017, such payments have not been made due to applicable provisions of PROMESA. Litigation regarding these revenues is ongoing in the Commonwealth's Title III case.

The following paragraphs detail the amount of debt service not paid:

PFC Bonds

On July 15, 2015, the Puerto Rico Public Finance Corporation (PFC) filed a notice with Electronic Municipal Market Access (EMMA) indicating that the Legislature had not included in the approved budget for fiscal year 2016 the funds necessary to pay principal and interest on all outstanding PFC bonds. Such appropriation is the sole source of payment of principal and interest on PFC bonds. The first payment of debt service on PFC bonds for fiscal year 2016 came due on August 3, 2015, on which date PFC made a partial payment of interest in the amount of $628 thousand (of the approximately $58 million payment due on that date) from funds held by PFC representing funds remaining from prior legislative appropriations. From August 3, 2015 through May 31, 2021, PFC has not made several debt service payments on its bonds in the total aggregate amount of approximately $519.7 million.

General Obligation (GO) Bonds

On July 1, 2016, approximately $1.1 billion of principal and interest payments were due on the Commonwealth's general obligation bonds. Of this amount, the Commonwealth paid approximately $351.9 million (leaving approximately $778.8 million unpaid). The $351.9 million payment consisted of funds held in escrow accounts ($314.4 million in principal amounts plus $37.5 million from existing capitalized interest thereon). From July 1, 2016 through May 31, 2021, the Commonwealth has not made several debt payments on its general obligation bonds in the total aggregate amount of approximately $5.5 billion.

PBA Bonds

On July 1, 2016, of the approximately $187 million of debt service payments due on the PBA outstanding revenue bonds (consisting of approximately $86.1 million in principal and $100.9 million in interest), all was paid except principal of $25.2 million. Of the outstanding bonds debt service requirements due from August 1, 2016, through May 31, 2021, PBA has not made several debt payments on bonds in the total aggregate amount of approximately$1.3 billion.

PRIFA Bonds

On January 1, 2016, of the approximately $35.9 million debt service payments (all interest) due on the PRIFA bonds, almost all remained unpaid except $14.4 thousand. Since January 1, 2016, PRIFA has not made several debt service payments on its bonds in the total aggregate amount of approximately $726.5 million, except principal of $100 thousand and interest of $1.1 million.

Port of the Americas (PAA) Bond Purchase Agreement with GDB

The PAA Bond Purchase Agreement with GDB remains unpaid in the aggregate amount of principal and interest of approximately $145.9 million.

Going Concern, Liquidity Risk and Fiscal Plan

Going Concern and Liquidity Risk

The Commonwealth is in the midst of a fiscal, economic and liquidity crisis, the culmination of many years of governmental deficits, an economic recession (which commenced in 2006), a high unemployment rate, a population decline, and high levels of debt and pension related obligations. As the Commonwealth's tax base has shrunk and its revenues have been affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints, among other factors, have affected its credit ratings and its ability to obtain financing at reasonable interest rates. As a result, the Commonwealth had relied on short-term financings and interim loans from the GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its discretely presented component units of outstanding GDB lines of credit, which delays have limited GDB's ability to continue providing financing to the Commonwealth and have caused GDB to fail to make principal payment on its debts obligations. Similarly, and pursuant to a series of legislations and executive orders issued during fiscal year 2016 and 2017, the Commonwealth and certain other public corporations also failed to make the debt service payments on some of its debts as they became due, including the general obligation bonds of the Commonwealth. GDB ceased its operations on March 23, 2018 and, underwent a consensual restructuring of its debts under Title VI of PROMESA in 2018, and is winding down its operations.

In response to the Commonwealth's current fiscal crisis, the United States Congress enacted the Puerto Rico Oversight, Management and Economic Stability Act (codified under 48 U.S.C. §§ 2101-2241) (PROMESA) on June 30, 2016. In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt

modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in -court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.). For additional information on the key elements of PROMESA and the Title III cases, refer to Note 3. For additional information on the civil actions related to the Title III cases and other litigation contingencies, refer to Note 17.

The risks and uncertainties facing the Commonwealth, together with other factors, have led management to conclude that there is substantial doubt as to the ability of the Commonwealth to continue as a going concern.

Fiscal Plan

Pursuant to PROMESA and the requirements imposed by the Oversight Board, on April 23, 2021, the Oversight Board certified the Board Fiscal Plan for the Commonwealth. The Oversight Board's Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. For additional information regarding the Board Fiscal Plan, refer to Note 2.

Currently Known Facts

The following is a summary description of currently known facts, decisions, and conditions that have had, or are expected to have, an impact on the Commonwealth's financial position and results of operations. For additional information and further detail, refer to Note 23.

Proposed Title III Joint Plan of Adjustment

On May 12, 2021, the Oversight Board announced that it filed the third amended Plan of Adjustment that reflects agreements reached with creditors after filing the second amended Plan of Adjustment on March 8, 2021. The Plan of Adjustment is anticipated to reduce the debt of the Commonwealth of Puerto Rico to affordable and sustainable levels. The plan reduces the Commonwealth's debt from approximately $35 billion in outstanding claims by approximately 80% to $7.4 billion in future debt and reduces the Commonwealth's total debt service payments (including COFINA senior bonds) by more than 60%, from approximately $90.4 billion to approximately $34.1 billion, saving Puerto Rico almost approximately $60 billion in debt service payments.

On February 5, 2019, the plan of adjustment of COFINA was confirmed by the U.S. District Court for the District of Puerto Rico and became effective on February 12, 2019. Pursuant to the approval of the plan of adjustment, COFINA issued new sales tax revenue bonds in the aggregate amount of approximately $12 billion, and its total outstanding debt was reduced by approximately 32 percent.

Bonds Credit Rating

On February 8, 2019 Moody's upgraded COFINA's current senior lien- sales tax revenue bonds to Caa3 from Ca. The upgrade reflects recovery expectations in line with the Caa3 rating based on detail in the COFINA's Plan of Adjustment. Upon the effective date of the COFINA Plan of Adjustment on February 12, 2019, COFINA's senior- and junior lien bonds were extinguished, and bond holders received New COFINA Bonds as provided for in the COFINA Plan of Adjustment. The New COFINA Bonds are not currently rated.

Earthquakes

On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing damages to infrastructure, an island wide- power outage, water shortages and threatening the lives of its people. On January 11, 2020, the Governor authorized the appropriation of approximately $12 million of the Emergency Fund to be distributed equally between the municipalities of Gúanica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco to be used exclusively for damages and mitigation related to the emergency.

A preliminary assessment of the damages caused by the earthquake and subsequent aftershocks, calculated by the United States Geological Survey, estimated total economic damages ascending to approximately $836 million.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez Garced issued an executive order on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorized the Commonwealth's Secretary of the Treasury and the Director of the Office of Management and Budget of the Commonwealth (PROMB) to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. The impact has been preliminarily estimated at approximately $4 billion. As a direct result of the COVID19 pandemic, the Commonwealth Management has estimated a reduction of revenue collections of approximately $1.6 billion.

Revolving Funds for the Reconstruction of Puerto Rico

On November 18, 2020 Joint Resolution 85 was approved by the Legislature in order to establish a revolving fund in the amount of $750 million to advance funding for permanent work projects under the Public Assistance Program of the Federal Emergency Management Agency (FEMA). This funds will allow municipalities and other state dependencies to access much needed funding to develop permanent reconstruction works. Funding may be used specifically for reconstruction projects needed as a result of recent disasters, such as, the passage of Hurricanes Irma and María, and the earthquakes.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2018

(In thousands)

	Primary government			
	Governmental activities	Business-type activities	Totals primary government	Component units
Assets:				
Cash and cash equivalents in commercial banks	$ 3,602,192	270,917	3,873,109	1,674,594
Cash and cash equivalents in governmental banks	2,201	3	2,204	5,520
Investments	188,145	—	188,145	1,506,593
Collateral from securities lending transactions	—	—	—	11,224
Receivables – net:				
Income and excise taxes	1,880,895	—	1,880,895	—
Sales and use tax receivable	61,792	—	61,792	—
Insurance premium	—	4,299	4,299	45,034
Intergovernmental	643,187	511,432	1,154,619	541,266
Accounts	28,932	77,941	106,873	789,128
Loans	671,424	—	671,424	2,312,309
Accrued interest	6,177	930	7,107	74,703
Other	222,446	1,725	224,171	205,170
Due from – net :				
Primary government	—	—	—	75,426
Component units	526,517	1,121	527,638	200,398
Other governmental entities	134,014	—	134,014	53,576
Internal balances	(74,984)	74,984	—	—
Inventories	14,149	—	14,149	351,968
Prepaid expenses	24,986	—	24,986	52,842
Other assets	13,888	25,373	39,261	23,304
Restricted assets:				
Cash and cash equivalents in commercial banks	1,253,560	49,297	1,302,857	869,411
Cash and cash equivalents in governmental banks	208	19	227	4,650
Cash and cash equivalents under the custody of U.S. Treasury	—	581,377	581,377	—
Sales and use tax receivable	74,726	—	74,726	—
Insurance premium – net	—	61,838	61,838	—
Loans receivable from component units	—	456,678	456,678	—
Investments	1,324,317	26,818	1,351,135	1,278,360
Other	520	18,455	18,975	43,095
Real estate held for sale or future development	44,211	—	44,211	247,989
Capital assets:				
Land and other nondepreciable	2,072,415	36,005	2,108,420	4,299,352
Depreciable, net	6,098,951	56,160	6,155,111	23,861,695
Total assets	18,814,869	2,255,372	21,070,241	38,527,607
Deferred outflows of resources:				
Accumulated decrease in fair value of hedging derivatives	65,954	—	65,954	31,486
Loss on bonds refunding	351,272	—	351,272	152,612
Other postemployment benefits related	92,134	1,356	93,490	44,139
Pension related	7,049,638	241,042	7,290,680	2,948,004
Total deferred outflows of resources	7,558,998	242,398	7,801,396	3,176,241

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2018

(In thousands)

	Primary government			
	Governmental activities	Business-type activities	Totals primary government	Component units
Liabilities:				
Accounts payable and accrued liabilities	1,739,635	129,539	1,869,174	2,545,634
Deposits and escrow liabilities	—	—	—	3,434,276
Tax refunds payable	597,128	—	597,128	—
Due to:				
Primary government	—	—	—	1,369,344
Component units	135,191	82,724	217,915	3,178,551
Other governmental entities	144,735	81,841	226,576	200,701
Securities lending obligations and reverse repurchase agreements	—	—	—	11,224
Interest payable	3,605,763	111,282	3,717,045	2,469,739
Grant advances	8,330	—	8,330	—
Unearned revenue	27,052	33,083	60,135	149,418
Hedging derivatives instruments – interest rate swaps	65,954	—	65,954	31,486
Notes payable to GDB	1,700	—	1,700	—
Tax revenue anticipation notes	400,000	—	400,000	—
Liabilities payable within one year:				
Commonwealth appropriation bonds	90,436	—	90,436	11,462
General obligations and revenue bonds	1,662,648	—	1,662,648	1,590,670
Notes payable to component units	468,630	82,667	551,297	—
Note payable to financial institution	14,258	—	14,258	2,544,931
Capital leases	9,573	—	9,573	1,586
Compensated absences	193,372	9,475	202,847	102,156
Obligation for unpaid lottery prizes	—	91,612	91,612	—
Voluntary termination benefits	92,763	1,384	94,147	23,333
Net pension liability	663,584	—	663,584	—
Total other postemployment benefit liability	92,134	1,356	93,490	44,139
Liability for insurance benefits	—	175,187	175,187	741,388
Other long-term liabilities	204,467	2,086	206,553	66,224
Liabilities payable after one year:				
Commonwealth appropriation bonds	478,956	—	478,956	516,449
General obligations and revenue bonds	38,749,557	—	38,749,557	16,716,927
Bond purchase agreement with GDB	225,534	—	225,534	—
Notes payable to component units	1,918,791	403,892	2,322,683	—
Notes payable to financial institutions	9,506	—	9,506	2,403,423
Liability under guaranteed obligation	392,343	—	392,343	—
Capital leases	282,160	—	282,160	24,944
Compensated absences	298,294	6,692	304,986	255,429
Obligation for unpaid lottery prizes	—	73,012	73,012	—
Voluntary termination benefits	612,364	4,796	617,160	105,914
Net pension obligation	—	—	—	20,415
Net pension liability	38,093,203	819,278	38,912,481	12,714,963
Total other postemployment benefit liability	1,157,744	15,846	1,173,590	791,460
Other long-term liabilities	1,480,196	2,142	1,482,338	846,259
Total liabilities	93,916,001	2,127,894	96,043,895	52,912,445
Deferred inflows of resources:				
Service concession arrangements	—	—	—	1,776,310
Gain on bonds refunding	110,482	—	110,482	—
Other post employment benefits related	535	—	535	26,529
Pension related	5,108,559	96,152	5,204,711	1,123,620
Total deferred inflows of resources	5,219,576	96,152	5,315,728	2,926,459
Net position:				
Net investment in capital assets	2,189,585	71,739	2,261,324	5,747,622
Restricted for:				
Capital projects	72,058	—	72,058	255,060
Debt service	152,996	—	152,996	140,763
Emergency services	—	6,268	6,268	—
Lending activities	—	468,099	468,099	—
Payment of insurance benefits	—	595,782	595,782	—
Public housing and welfare	—	—	—	24,253
Student loans and other educational purposes	—	—	—	108,851
Other	486,707	—	486,707	291,747
Unrestricted (deficit)	(75,663,056)	(868,164)	(76,531,220)	(20,703,352)
Total net position	$ (72,761,710)	273,724	(72,487,986)	(14,135,056)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2018

(In thousands)

		Program revenue			Net (expense) revenue and changes in net position			
					Primary government			
Functions	**Expenses**	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**	**Component units**
Primary government:								
Governmental activities:								
General government	$ 1,256,379	215,266	772,201	—	(268,912)	—	(268,912)	—
Public safety	2,091,586	133,525	78,377	—	(1,879,684)	—	(1,879,684)	—
Health	3,132,748	220,272	2,080,913	—	(831,563)	—	(831,563)	—
Public housing and welfare	3,717,727	6,335	2,869,694	86,205	(755,493)	—	(755,493)	—
Education	3,232,296	1,102	820,058	—	(2,411,136)	—	(2,411,136)	—
Economic development	1,416,995	109,076	318,380	—	(989,539)	—	(989,539)	—
Intergovernmental	312,013	—	—	—	(312,013)	—	(312,013)	—
Interest and other	2,572,119	—	—	—	(2,572,119)	—	(2,572,119)	—
Total governmental activities	17,731,863	685,576	6,939,623	86,205	(10,020,459)	—	(10,020,459)	—
Business-type activities:								
Unemployment insurance	151,281	210,471	636	—	—	59,826	59,826	—
Puerto Rico Health Insurance Administration	2,907,650	215,043	2,338,663	—	—	(353,944)	(353,944)	—
Puerto Rico Medical Services Administration	232,484	116,522	—	—	—	(115,962)	(115,962)	—
Nonmajor proprietary funds	506,392	669,097	6,164	—	—	168,869	168,869	—
Total business-type activities	3,797,807	1,211,133	2,345,463	—	—	(241,211)	(241,211)	—
Total primary government	$ 21,529,670	1,896,709	9,285,086	86,205	(10,020,459)	(241,211)	(10,261,670)	—

(Continued)

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2018

(In thousands)

Functions	Expenses	Program revenue: Charges for services	Program revenue: Operating grants and contributions	Program revenue: Capital grants and contributions	Net (expense) revenue and changes in net position — Primary government: Governmental activities	Primary government: Business-type activities	Primary government: Total	Component units
Component units:								
Government Development Bank for Puerto Rico	$ 471,418	139,756	178,453	—	—	—	—	(153,209)
Puerto Rico Highways and Transportation Authority	1,117,155	210,068	20,602	92,314	—	—	—	(794,171)
Puerto Rico Electric Power Authority	5,198,324	2,551,622	1,071,677	35,010	—	—	—	(1,540,015)
Puerto Rico Aqueduct and Sewer Authority	1,502,955	1,085,005	—	104,504	—	—	—	(313,446)
University of Puerto Rico	1,531,775	199,726	292,913	—	—	—	—	(1,039,136)
State Insurance Fund Corporation	548,354	636,473	—	—	—	—	—	88,119
Nonmajor component units	1,329,897	689,736	180,119	3,035	—	—	—	(457,007)
Total component units	$ 11,699,878	5,512,386	1,743,764	234,863	—	—	—	(4,208,865)
General revenue:								
Income taxes					4,835,861	—	4,835,861	—
Sales and use tax					2,354,290	—	2,354,290	—
Excise taxes					3,641,000	—	3,641,000	421,714
Other taxes					136,637	—	136,637	—
Revenue from global tobacco settlement agreement					77,842	—	77,842	—
Revenue from State Insurance Fund Corporation					38,744	—	38,744	—
Revenue from Puerto Rico Tourism Company					21,426	—	21,426	—
Grants and contributions not restricted to specific programs					90,602	—	90,602	4,055
Revenue from primary government					—	—	—	1,069,191
Unrestricted investment (losses) earnings – net					38,387	17,799	56,186	87,211
Other					125,934	471	126,405	—
Transfers					(446,931)	446,931	—	—
Total general revenue and transfers					10,913,792	465,201	11,378,993	1,582,171
Change in net position					893,333	223,990	1,117,323	(2,626,694)
Net position:								
At beginning of year, as previously reported					(71,129,600)	69,269	(71,060,331)	(12,085,936)
Correction of errors, change in reporting entity and adoption of new accounting pronouncements (note 4)					(2,525,443)	(19,535)	(2,544,978)	577,574
Net position (deficit) – beginning of year, as restated					(73,655,043)	49,734	(73,605,309)	(11,508,362)
Net position (deficit) – end of year					$ (72,761,710)	273,724	(72,487,986)	(14,135,056)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds

June 30, 2018

(In thousands)

	General	Debt service	ERS special revenue	COFINA special revenue	COFINA debt service	Nonmajor governmental	Total governmental
Assets:							
Cash and cash equivalents in commercial banks	$ 3,224,937	—	135,970	6,373	—	234,912	3,602,192
Cash and cash equivalents in governmental banks	2,133	—	—	—	—	68	2,201
Investments	102,055	—	84,001	—	—	2,089	188,145
Receivables – net:							
Income and excise taxes	1,880,895	—	—	—	—	—	1,880,895
Sales and use tax receivable	61,792	—	—	—	—	—	61,792
Intergovernmental	641,726	—	—	—	—	1,461	643,187
Accounts	26,026	—	—	—	—	2,906	28,932
Loans	—	—	417,549	—	—	253,875	671,424
Accrued interest	5,739	—	—	—	391	47	6,177
Other	136,674	—	18,661	—	1,645	65,466	222,446
Due from – net:							
Other funds	57,388	—	149,706	—	—	133	207,227
Component units	525,224	—	—	—	—	1,293	526,517
Other governmental entities	113,851	—	—	—	—	915	114,766
Other assets	12,432	—	—	—	—	1,456	13,888
Restricted assets:							
Cash and cash equivalents in commercial banks	221,484	408,419	357,178	—	76,257	190,222	1,253,560
Cash and cash equivalents in governmental banks	—	—	—	—	—	208	208
Sales and use tax receivable	—	—	—	—	74,726	—	74,726
Investments	31,868	—	—	—	1,184,350	108,099	1,324,317
Due from other funds	—	—	—	—	—	167,827	167,827
Due from other governmental entities	—	—	—	—	—	19,248	19,248
Other assets	—	—	—	—	—	520	520
Real estate held for sale or future development	—	—	—	—	—	1,854	1,854
Total assets	$ 7,044,224	408,419	1,163,065	6,373	1,337,369	1,052,599	11,012,049
Liabilities, deferred inflow of resources, and fund balances (deficit):							
Liabilities:							
Accounts payable and accrued liabilities	$ 1,547,946	—	45,513	196	117	145,598	1,739,370
Tax refunds payable	597,128	—	—	—	—	—	597,128
Due to:							
Other funds	99,146	—	—	—	301,321	49,571	450,038
Component units	127,066	—	—	—	—	8,125	135,191
Other governmental entities	135,799	—	—	—	—	8,936	144,735
Interest payable	103,003	1,454,476	—	—	710,248	515,197	2,782,924
Grant advances	8,330	—	—	—	—	—	8,330
Unearned revenue	26,101	—	—	—	—	951	27,052
Notes payable to GDB	293,459	—	—	—	—	110,976	404,435
Tax revenue anticipation notes	400,000	—	—	—	—	—	400,000
Commonwealth appropriation bonds	67,793	—	—	—	—	281	68,074
General obligation and revenue bonds	—	843,055	—	—	18,745	275,963	1,137,763
Compensated absences	—	—	—	—	—	620	620
Voluntary termination benefits payable	46	—	—	—	—	—	46
Net pension liability	663,584	—	—	—	—	—	663,584
Other liabilities	70,000	—	—	—	—	5,052	75,052
Total liabilities	4,139,401	2,297,531	45,513	196	1,030,431	1,121,270	8,634,342
Deferred inflows of resources:							
Unavailable income taxes	1,336,240	—	—	—	—	—	1,336,240
Intergovernmental grants and contributions	83,355	—	—	—	—	—	83,355
Developer fees	112,319	—	—	—	—	—	112,319
Global tobacco settlement agreement	—	—	—	—	—	36,857	36,857
Total deferred inflows of resources	1,531,914	—	—	—	—	36,857	1,568,771
Fund Balances:							
Nonspendable	—	—	—	—	—	127	127
Spendable:							
Restricted	105,976	—	1,117,552	—	306,938	694,762	2,225,228
Committed	—	—	—	—	—	11,997	11,997
Assigned	6,176	—	—	6,177	—	38,481	50,834
Unassigned (deficit)	1,260,757	(1,889,112)	—	—	—	(850,895)	(1,479,250)
Total fund balances (deficit)	1,372,909	(1,889,112)	1,117,552	6,177	306,938	(105,528)	808,936
Total liabilities, deferred inflow of resources, and fund balances (deficit)	$ 7,044,224	408,419	1,163,065	6,373	1,337,369	1,052,599	11,012,049

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2018

(In thousands)

Total fund balances (deficit) of governmental funds	$	808,936
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental funds because:		
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net position		39,135
Deferred outflows of resources reported in governmental activities but not in governmental funds		
Accumulated decrease in fair value of hedging derivatives		65,954
Loss on bonds refunding		351,272
Other postemployment benefits related		92,134
Pension related		7,049,638
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds		8,171,366
Real estate held for sale or future development are not current financial resources and, therefore, are not reported in the governmental funds		42,357
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities		1,568,771
Deferred inflows of resources reported in governmental activities but not in governmental funds		
Gain on bonds refunding		(110,482)
Other postemployment benefits related		(535)
Pension related		(5,108,559)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accounts payable		(265)
Interest payable		(822,839)
Commonwealth appropriation bonds		(501,318)
General obligation and revenue bonds		(39,274,442)
Bond purchase agreement with GDB		(225,534)
Notes payable to component units		(1,984,686)
Notes payable to financial institutions		(23,764)
Guaranteed obligation		(392,343)
Capital leases		(291,733)
Compensated absences		(491,046)
Voluntary termination benefits		(705,081)
Net pension liability		(38,093,203)
Hedging derivative instrument – interest rate swaps		(65,954)
Other postemployment benefit obligation		(1,249,878)
Other long-term liabilities		(1,609,611)
Total net position (deficit) of governmental activities	$	(72,761,710)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds

Year ended June 30, 2018

(In thousands)

	General	Debt service	ERS special revenue	COFINA special revenue	COFINA debt service	Nonmajor governmental	Total governmental
Revenue:							
Taxes:							
Income taxes	$ 4,378,551	—	—	—	—	—	4,378,551
Sales and use tax	1,626,423	—	—	—	727,867	—	2,354,290
Excise taxes	3,641,000	—	—	—	—	—	3,641,000
Property taxes	2,502	—	—	—	—	—	2,502
Other taxes	134,135	—	—	—	—	—	134,135
Charges for services	685,575	—	—	—	—	—	685,575
Revenue from global tobacco settlement agreement	77,329	—	—	—	—	—	77,329
Revenue from component units	60,170	—	—	—	—	—	60,170
Intergovernmental	6,890,160	95,113	33,413	—	—	48,883	7,067,569
Interest and investment earnings	22,200	443	—	1	9,932	5,811	38,387
Other	54,364	—	10,063	—	—	36,372	100,799
Total revenue	17,572,409	95,556	43,476	1	737,799	91,066	18,540,307
Expenditures:							
Current:							
General government	1,060,062	—	117,814	—	4,320	208,536	1,390,732
Public safety	2,095,837	—	—	—	—	1,563	2,097,400
Health	3,261,528	—	—	—	—	20,318	3,281,846
Public housing and welfare	3,616,712	—	—	—	—	(139)	3,616,573
Education	3,094,728	—	—	—	—	44,751	3,139,479
Economic development	1,384,768	—	—	—	—	803	1,385,571
Intergovernmental	312,293	—	—	—	—	—	312,293
Capital outlays	161,078	—	20	—	—	6,855	167,953
Debt service:							
Principal	229,316	394,715	—	—	18,745	236,440	879,216
Interest and other	91,078	723,101	173,004	—	690,029	380,463	2,057,675
Total expenditures	15,307,400	1,117,816	290,838	—	713,094	899,590	18,328,738
Excess (deficiency) of revenue over (under) expenditures	2,265,009	(1,022,260)	(247,362)	1	24,705	(808,524)	211,569
Other financing sources (uses):							
Transfers in	588,904	—	387,668	—	168	399,435	1,376,175
Transfers out	(1,410,310)	—	(192,277)	(168)	(20,351)	(200,000)	(1,823,106)
Proceeds from long term debt issued	13,234	—	—	—	—	—	13,234
Proceeds from sale of capital assets	9,129	—	—	—	—	—	9,129
Total other financing sources (uses)	(799,043)	—	195,391	(168)	(20,183)	199,435	(424,568)
Net change in fund balances	1,465,966	(1,022,260)	(51,971)	(167)	4,522	(609,089)	(212,999)
Fund balances (deficit) – beginning of year, as restated (note 4)	(93,057)	(866,852)	1,169,523	6,344	302,416	503,561	1,021,935
Fund balances (deficit) – end of year	$ 1,372,909	(1,889,112)	1,117,552	6,177	306,938	(105,528)	808,936

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2018

(In thousands)

Net change in fund balances – total governmental funds		$ (212,999)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	$ 167,953	
Less depreciation and amortization expense	(310,301)	
Loss on disposal of assets	(17,546)	
Subtotal		(159,894)
The issuance of long-term debt (e.g., bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in thestatement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Principal payments of long-term debt	879,216	
Proceed from long-term debt issued	(13,234)	
Subtotal		865,982
Some revenues in the statement of activities do not provide current financial resources, and, therefore, are deferred in governmental funds. Also, revenue related to prior periods that became available during the current period is reported in governmental funds but are eliminated in the statement of activities. This amount is the net adjustment.		531,820
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(128,855)
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net position. This amount is the net decrease in total inventories and prepaid expenses.		(2,721)
Change in net position of governmental activities		$ 893,333

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position – Proprietary Funds

June 30, 2018

(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	Puerto Rico Health Insurance Administration	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
Assets:					
Current assets:					
Cash and cash equivalents in commercial banks	$ —	54,920	11,753	204,244	270,917
Cash and cash equivalents in governmental banks	—	3	—	—	3
Receivables – net:					
Insurance premiums	—	—	—	4,299	4,299
Intergovernmental	—	504,152	7,280	—	511,432
Accounts	—	59,703	11,762	6,476	77,941
Accrued interest receivable	—	873	—	57	930
Other	—	—	30	216	246
Due from other funds	—	—	59,006	4,022	63,028
Due from component units	—	—	1,121	—	1,121
Other assets	—	21,336	4,008	29	25,373
Restricted assets:					
Cash and cash equivalents in commercial banks	3,207	—	—	28,709	31,916
Cash and cash equivalents in governmental banks	—	—	—	19	19
Cash and cash equivalents under the custody the U.S. Treasury	581,377	—	—	—	581,377
Insurance premiums receivable	61,838	—	—	—	61,838
Other	62	—	—	278	340
Loans from component units	—	—	—	10,833	10,833
Total current assets	646,484	640,987	94,960	259,182	1,641,613
Noncurrent assets:					
Cash and cash equivalents in commercial banks – restricted	—	—	17,381	—	17,381
Receivables – net:					
Loans from component units – restricted	—	—	—	445,845	445,845
Due from other funds	—	8,645	—	15,150	23,795
Other	—	1,479	—	—	1,479
Restricted investments	—	—	—	26,818	26,818
Other restricted assets	—	—	—	18,115	18,115
Land and other nondepreciable	—	—	6,872	29,133	36,005
Depreciable, net	—	2,378	48,073	5,709	56,160
Total assets	646,484	653,489	167,286	799,952	2,267,211
Deferred outflows of resources:					
Other postemployment benefits related	—	—	1,213	143	1,356
Pension related	—	3,191	207,831	30,020	241,042
Total deferred outflows of resources	—	3,191	209,044	30,163	242,398
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	—	78,352	38,691	12,496	129,539
Due to other funds	6,139	—	5,700	—	11,839
Due to component units	—	—	82,724	—	82,724
Due to other governmental entities	—	—	76,537	5,304	81,841
Interest payable	—	41,703	64,213	5,366	111,282
Unearned revenue	23,045	—	—	10,038	33,083
Notes payable to component units	—	82,667	—	—	82,667
Compensated absences	—	606	8,553	316	9,475
Obligation for unpaid lottery prizes	—	—	—	91,612	91,612
Voluntary termination benefits payable	—	961	—	423	1,384
Liability for insurance benefits	51,208	123,406	—	573	175,187
Total other postemployment benefit liability	—	—	1,213	143	1,356
Other long-term liabilities	—	—	2,086	—	2,086
Total current liabilities	80,392	327,695	279,717	126,271	814,075
Noncurrent liabilities:					
Notes payable to component units	—	100,584	282,445	20,863	403,892
Compensated absences	—	380	4,160	2,152	6,692
Obligation for unpaid lottery prizes	—	—	—	73,012	73,012
Voluntary termination benefits payable	—	2,784	—	2,012	4,796
Net pension liability	—	20,505	699,100	99,673	819,278
Total other postemployment benefit liability	—	—	14,175	1,671	15,846
Other long-term liabilities	—	—	2,142	—	2,142
Total liabilities	80,392	451,948	1,281,739	325,654	2,139,733
Deferred inflows of resources:					
Pension related	—	2,570	87,608	5,974	96,152
Net position:					
Net investment in capital assets	—	2,378	54,945	14,416	71,739
Restricted for emergency services	—	—	—	6,268	6,268
Restricted for lending activities	—	—	—	468,099	468,099
Restricted for payment of insurance benefits	566,092	—	—	29,690	595,782
Unrestricted (deficit)	—	199,784	(1,047,962)	(19,986)	(868,164)
Total net position (deficit)	$ 566,092	202,162	(993,017)	498,487	273,724

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenses, and Changes in Fund Net Position – Proprietary Funds

Year ended June 30, 2018

(In thousands)

	Business-Type Activities – Enterprise Funds				
	Unemployment Insurance	**Puerto Rico Health Insurance Administration**	**Puerto Rico Medical Services Administration**	**Nonmajor proprietary**	**Total proprietary**
Operating revenue:					
Health insurance administration	$ —	215,043	—	—	215,043
Insurance premiums	210,471	—	—	22,396	232,867
Lottery ticket sales	—	—	—	618,606	618,606
Patient service, net of provision for bad debts	—	—	116,522	—	116,522
Emergency telephone service charges	—	—	—	19,858	19,858
Interest	—	—	—	36	36
Release of provision for loan losses	—	—	—	8,084	8,084
Other	—	—	—	117	117
Total operating revenue	210,471	215,043	116,522	669,097	1,211,133
Operating expenses:					
Insurance benefits	151,281	—	—	1,904	153,185
Medical premiums and claims	—	2,858,306	—	—	2,858,306
Lottery prizes	—	—	—	392,973	392,973
Patient services	—	—	132,479	—	132,479
General, administrative, and other operating expenses	—	38,335	80,414	93,264	212,013
Release of provision for loan losses	—	—	—	15,750	15,750
Total operating expenses	151,281	2,896,641	212,893	503,891	3,764,706
Operating income (loss)	59,190	(2,681,598)	(96,371)	165,206	(2,553,573)
Nonoperating revenue (expenses):					
U.S. government grants	636	2,338,663	—	6,164	2,345,463
Contributions to component units	—	—	—	(1,004)	(1,004)
Interest and investment earnings	12,337	3,055	—	2,407	17,799
Interest expense	—	(11,009)	(19,591)	(1,497)	(32,097)
Other	—	—	97	374	471
Total nonoperating revenue (expenses)	12,973	2,330,709	(19,494)	6,444	2,330,632
Income (loss) before transfers	72,163	(350,889)	(115,865)	171,650	(222,941)
Transfers from other funds	—	560,343	84,182	830	645,355
Transfers to other funds	(42,602)	—	—	(155,822)	(198,424)
Net change in net position	29,561	209,454	(31,683)	16,658	223,990
Net position (deficit)– beginning of year, as restated (note 4)	536,531	(7,292)	(961,334)	481,829	49,734
Net position (deficit)– end of year	$ 566,092	202,162	(993,017)	498,487	273,724

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2018

(In thousands)

		Business-Type Activities – Enterprise Funds			
	Unemployment Insurance	Puerto Rico Health Insurance Administration	Puerto Rico Medical Services Administration	Nonmajor proprietary	Total proprietary
Cash flows from operating activities:					
Receipts from customers and users	$ 205,505	183,262	120,576	660,078	1,169,421
Other receipts	—	—	—	80	80
Payments to healthcare organizations and third party administrators	—	(2,742,753)	—	—	(2,742,753)
Payments to suppliers	—	(22,142)	(35,862)	(69,909)	(127,913)
Payments to employees	—	(3,926)	(122,415)	(21,561)	(147,902)
Payments of lottery prizes	—	—	—	(375,966)	(375,966)
Payments of insurance benefits	(149,504)	—	—	(1,976)	(151,480)
Net cash provided by (used in) operating activities	56,001	(2,585,559)	(37,701)	190,746	(2,376,513)
Cash flows from noncapital financing activities:					
U.S. government grants	636	1,884,300	—	6,022	1,890,958
Contributions to component units	—	—	—	(1,004)	(1,004)
Interest paid	—	(14)	(2,416)	—	(2,430)
Transfers from other funds	—	553,629	60,439	2,883	616,951
Transfers to other funds	(43,608)	—	—	(144,129)	(187,737)
Net cash provided by (used in) noncapital and related financing activities	(42,972)	2,437,915	58,023	(136,228)	2,316,738
Cash flows from capital and related financing activities:					
Transfers from other funds	—	—	4,886	—	4,886
Capital expenditures	—	(874)	(7,442)	(17)	(8,333)
Net cash used by capital and related financing activities	—	(874)	(2,556)	(17)	(3,447)
Cash flows from investing activities:					
Interest collected on deposits, investments, and loans	12,337	3,043	97	2,375	17,852
Loans originated	—	—	—	(1,418)	(1,418)
Principal collected on loans	—	—	—	1,133	1,133
Proceeds from sales and maturities of investments	—	—	—	4,291	4,291
Purchases of investments	—	—	—	(4,374)	(4,374)
Net cash provided by investing activities	12,337	3,043	97	2,007	17,484
Net change in cash and cash equivalents	25,366	(145,475)	17,863	56,508	(45,738)
Cash and cash equivalents at beginning of year	559,218	200,398	11,271	176,464	947,351
Cash and cash equivalents at end of year	$ 584,584	54,923	29,134	232,972	901,613
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 59,190	(2,681,598)	(96,371)	165,206	(2,553,573)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans, and investments	—	—	—	(36)	(36)
Depreciation	—	778	4,551	467	5,796
Provision for bad debts	—	32,948	28,840	678	62,466
Gain on disposition of capital assets	—	5	—	—	5
Release of provision for loan losses	—	—	—	7,666	7,666
Changes in operating assets and liabilities:					
Increase in accounts and loans receivable	(8,605)	(31,781)	(24,381)	(1,799)	(66,566)
Decrease in due from other governmental entities	—	—	21	—	21
Decrease (increase) in other assets	—	(31)	(426)	3,456	2,999
Decrease (increase) in deferred outflow of resources	—	3,604	(48,124)	1,429	(43,091)
Increase (decrease) in accounts payable and accrued liabilities	—	9,427	26,622	2,641	38,690
Decrease in due to component units	—	—	5,146	—	5,146
Increase in due to other governmental entities	—	—	(23,041)	3	(23,038)
Increase (decrease) in unearned revenue	3,639	—	—	(2,468)	1,171
Decrease in compensated absences	—	(106)	(1,676)	(978)	(2,760)
Increase in deferred inflow of resources	—	2,102	74,578	3,975	80,655
Increase (decrease) in net pension liability	—	(3,944)	18,325	(5,200)	9,181
Decrease in total other postemployment benefits liability	—	—	(3,800)	(449)	(4,249)
Increase in obligation for unpaid lottery prizes	—	—	—	17,007	17,007
Decrease in voluntary termination benefits payable	—	(232)	—	(780)	(1,012)
Increase (decrease) in liability for unemployment, disability and health insurance	1,777	83,269	—	(72)	84,974
Increase in other long-term liabilities	—	—	2,035	—	2,035
Total adjustments	(3,189)	96,039	58,670	25,540	177,060
Net cash provided by (used in) operating activities	$ 56,001	(2,585,559)	(37,701)	190,746	(2,376,513)
Noncash capital and financing activities:					
Retirement of capital assets	$ —	—	702	—	702

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2018

(In thousands)

		Agency
Assets:		
Cash and cash equivalents in commercial banks:		
Unrestricted	$	973,331
Cash and cash equivalents with governmental banks:		
Unrestricted		50
Total assets		973,381
Liabilities:		
Accounts payable and accrued liabilities		973,381
Total liabilities		973,381

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Discretely Presented Component Units

June 30, 2018

(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	State Insurance Fund Corporation	Major component units totals	Nonmajor component units totals	All component units totals
Assets:									
Cash and cash equivalents in commercial banks	$ 308,377	27,143	344,880	233,626	251,235	147,088	1,312,349	362,245	1,674,594
Cash and cash equivalents with governmental banks	—	—	—	—	—	—	—	5,520	5,520
Investments	254,975	—	—	—	2,808	721,794	979,577	527,016	1,506,593
Collateral from securities lending transactions	—	—	—	—	—	11,224	11,224	—	11,224
Receivables – net:									
Insurance premiums	—	—	—	—	—	45,034	45,034	—	45,034
Intergovernmental	—	19,874	430,687	27,989	39,022	—	517,572	23,694	541,266
Accounts	—	9,853	429,477	208,855	26,963	—	675,148	113,980	789,128
Loans and advances	2,253,764	—	—	—	5,115	—	2,258,879	53,430	2,312,309
Accrued interest	58,089	184	—	—	—	10,779	69,052	5,651	74,703
Other	1,067	—	4,180	186,000	—	4,023	195,270	9,900	205,170
Due from – net:									
Primary government	—	10,000	22,636	6,386	5,626	—	44,648	30,778	75,426
Component units	74,533	—	100,492	6,162	5,677	—	186,864	13,534	200,398
Other governmental entities	—	—	901	16,905	15,945	—	33,751	19,825	53,576
Inventories	—	—	306,318	29,421	3,539	2,413	341,691	10,277	351,968
Prepaid expenses	—	11,203	—	13,695	3,713	2,673	31,284	21,558	52,842
Other assets	735	—	—	—	—	—	735	22,569	23,304
Restricted assets:									
Cash and cash equivalents in commercial banks	38,680	224,417	96,581	360,766	30,171	—	750,615	118,796	869,411
Cash and cash equivalents with governmental banks	—	—	—	4,649	—	—	4,649	1	4,650
Investments	127,391	80,139	—	—	269,883	—	477,413	800,947	1,278,360
Other restricted assets	5,089	—	—	—	—	—	5,089	38,006	43,095
Real estate held for sale or future development	61,561	—	—	—	—	—	61,561	186,428	247,989
Capital assets:									
Land and other nondepreciable	21,853	2,351,336	279,191	398,374	66,871	63,279	3,180,904	1,118,448	4,299,352
Depreciable – net	815	7,300,390	7,645,394	6,048,166	767,801	66,002	21,828,568	2,033,127	23,861,695
Total assets	3,206,929	10,034,539	9,660,737	7,540,994	1,494,369	1,074,309	33,011,877	5,515,730	38,527,607
Deferred outflows of resources:									
Accumulated decrease in fair value of hedging derivatives	—	—	31,486	—	—	—	31,486	—	31,486
Loss on bonds refunding	1,911	83,310	34,526	18,349	1,672	—	139,768	12,844	152,612
Other post employment benefits related	236	35	17,785	6,457	13,792	2,083	40,388	3,751	44,139
Pension related	31,467	64,955	881,699	302,705	904,320	369,201	2,554,347	393,657	2,948,004
Total deferred outflows of resources	33,614	148,300	965,496	327,511	919,784	371,284	2,765,989	410,252	3,176,241

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Discretely Presented Component Units

June 30, 2018

(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	State Insurance Fund Corporation	Major component units totals	Nonmajor component units totals	All component units totals
Liabilities:									
Accounts payable and accrued liabilities	107,241	126,846	1,415,187	269,778	106,394	34,445	2,059,891	485,743	2,545,634
Deposits and escrow liabilities	2,797,555	—	323,655	89,601	—	—	3,210,811	223,465	3,434,276
Due to:									
Primary government	10,503	2,778	317,312	666,576	—	78,817	1,075,986	293,358	1,369,344
Component units	—	1,980,894	44,162	118,144	98,943	1,603	2,243,746	934,805	3,178,551
Other governmental entities	28,383	3,401	—	39,722	18,573	—	90,079	110,622	200,701
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	11,224	11,224	—	11,224
Interest payable	414,782	861,099	723,950	238,380	—	—	2,238,211	231,528	2,469,739
Unearned revenue	2,577	—	6,856	29,691	10,000	21,869	70,993	78,425	149,418
Liabilities payable within one year:									
Commonwealth appropriation bonds	260	—	—	—	—	—	260	11,202	11,462
Revenue bonds	12,221	213,010	957,976	78,356	25,695	—	1,287,258	303,412	1,590,670
Notes payable to financial institutions	1,794,620	—	696,652	—	307	1,696	2,493,275	51,656	2,544,931
Capital leases	—	—	—	—	—	1,150	1,150	436	1,586
Compensated absences	—	5,335	42,782	10,069	28,918	—	87,104	15,052	102,156
Voluntary termination benefits	—	11,760	—	—	—	—	11,760	11,573	23,333
Liability for insurance benefits	—	—	—	—	—	680,734	680,734	60,654	741,388
Total other postemployment benefits liability	236	35	17,785	6,457	13,792	2,083	40,388	3,751	44,139
Other long-term liabilities	8,760	618	—	—	5,255	45,606	60,239	5,985	66,224
Liabilities payable after one year:									
Commonwealth appropriation bonds	3,079	—	—	415,779	—	—	418,858	97,591	516,449
Revenue bonds	25,409	4,107,760	7,389,188	3,847,141	439,319	—	15,808,817	908,110	16,716,927
Notes payable to financial institutions	2,042,850	—	21,327	—	754	—	2,064,931	338,492	2,403,423
Capital leases	—	—	—	—	—	24,540	24,540	404	24,944
Compensated absences	—	4,642	65,288	30,491	117,021	29,425	246,867	8,562	255,429
Voluntary termination benefits	—	41,552	—	—	—	—	41,552	64,362	105,914
Net pension obligation	—	—	—	—	—	—	—	20,415	20,415
Net pension liability	145,836	494,323	4,345,561	1,407,286	2,968,233	1,560,972	10,922,211	1,792,752	12,714,963
Total other postemployment benefits liability	2,591	2,901	356,805	117,310	218,323	51,713	749,643	41,817	791,460
Hedging derivative instruments – interest rate swaps	—	—	31,486	—	—	—	31,486	—	31,486
Other long-term liabilities	179,374	104,229	333,332	—	107,437	40,341	764,713	81,546	846,259
Total liabilities	7,576,277	7,961,183	17,089,304	7,364,781	4,158,964	2,586,218	46,736,727	6,175,718	52,912,445
Deferred inflows of resources:									
Service concession arrangements	—	1,114,330	—	—	—	—	1,114,330	661,980	1,776,310
Other post employment benefits related	—	—	17,797	7,385	—	1,347	26,529	—	26,529
Pension related	38,618	69,146	274,175	176,354	126,312	195,613	880,218	243,402	1,123,620
Total deferred inflows of resources	38,618	1,183,476	291,972	183,739	126,312	196,960	2,021,077	905,382	2,926,459
Net position:									
Net investment in capital assets	14,017	2,476,936	(445,886)	1,702,037	382,910	101,894	4,231,908	1,515,714	5,747,622
Restricted for:									
Capital projects	—	188,989	—	—	15,903	—	204,892	50,168	255,060
Debt service	—	—	—	—	54,520	—	54,520	86,243	140,763
Affordable housing and related loan insurance programs	24,253	—	—	—	—	—	24,253	—	24,253
Student loans and other educational purposes	—	—	—	—	102,716	—	102,716	6,135	108,851
Other	—	—	—	122,818	23,846	—	146,664	145,083	291,747
Unrestricted (deficit)	(4,412,622)	(1,627,745)	(6,309,157)	(1,504,870)	(2,451,018)	(1,439,479)	(17,744,891)	(2,958,461)	(20,703,352)
Total net position (deficit)	$ (4,374,352)	1,038,180	(6,755,043)	319,985	(1,871,123)	(1,337,585)	(12,979,938)	(1,155,118)	(14,135,056)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Activities – Discretely Presented Component Units

Year ended June 30, 2018

(In thousands)

	Expenses	Program revenue: Charges for services	Program revenue: Operating grants and contributions	Program revenue: Capital grants and contributions	Net revenue (expenses) and changes in net position	General revenue and transfers: Payments from (to) primary government	General revenue and transfers: Payments from (to) other component units	General revenue and transfers: Grants and contributions not restricted to specific programs	General revenue and transfers: Interest and investment earnings	General revenue and transfers: Excise taxes and others	Change in net position	Net position (deficit) – beginning of year, as previously reported	Correction of errors and adoption of new pronouncements (note 4)	Net position (deficit) – beginning of year, as restated	Net position (deficit) end of year
Major component units:															
Government Development Bank for Puerto Rico	$ 471,418	139,756	178,453	—	(153,209)	—	(4,428)	—	—	—	(157,637)	(4,207,812)	(8,903)	(4,216,715)	(4,374,352)
Puerto Rico Highways and Transportation Authority	1,117,155	210,068	20,602	92,314	(794,171)	276,087	—	—	6,775	—	(511,309)	1,552,844	(3,355)	1,549,489	1,038,180
Puerto Rico Electric Power Authority	5,198,324	2,551,622	1,071,677	35,010	(1,540,015)	—	(5,800)	—	10,589	—	(1,535,226)	(6,173,574)	953,757	(5,219,817)	(6,755,043)
Puerto Rico Aqueduct and Sewer Authority	1,502,955	1,085,005	—	104,504	(313,446)	—	—	—	2,958	2,110	(308,378)	628,363	—	628,363	319,985
University of Puerto Rico	1,531,775	199,726	292,913	—	(1,039,136)	668,821	64,278	—	7,585	8,047	(290,405)	(1,374,908)	(205,810)	(1,580,718)	(1,871,123)
State Insurance Fund Corporation	548,354	636,473	—	—	88,119	(48,093)	—	—	—	71,914	111,940	(1,397,379)	(52,146)	(1,449,525)	(1,337,585)
Nonmajor component units	1,329,897	689,736	180,119	3,035	(457,007)	172,376	(54,050)	4,055	59,304	339,643	64,321	(1,113,470)	(105,969)	(1,219,439)	(1,155,118)
	$ 11,699,878	5,512,386	1,743,764	234,863	(4,208,865)	1,069,191	—	4,055	87,211	421,714	(2,626,694)	(12,085,936)	577,574	(11,508,362)	(14,135,056)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of the Commonwealth's Constitution as approved by the people of Puerto Rico and the U.S. Congress. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development. On June 30, 2016, as a result of the current fiscal crisis that affects the Commonwealth (as further described below in Note 2 and Note 3), the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), was established under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, including review and approval of certain governmental functions.

The accompanying basic financial statements of the Commonwealth are presented in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds and discretely presented component units, the results of operations of the Commonwealth and its various funds and discretely presented component units, and the cash flows of the proprietary funds.

(a) Financial Reporting Entity

As required by U.S. GAAP, the financial reporting entity of the Commonwealth includes all departments, agencies, funds, functions, and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential discretely presented component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include when the Commonwealth appoints a voting majority of an organization's governing body and it has (i) the ability to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. In situations where the Commonwealth has not appointed the voting majority of an organization's governing body, the GASB has then provided as criteria for financial accountability the fiscal dependency of such organizations on the Commonwealth and when there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(b) Component Units

The basic financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14* and No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.*

(i) Blended Component Units

The following entities, while legally separate from the Commonwealth, meet the blending criteria to be reported as part of the Primary Government as follows:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) – ERS is a cost sharing, multiple employer defined benefit pension plan, which covers all regular

employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems. After the enactment of Act 106-2017 on August 23, 2017, ERS is governed by a thirteen member board of trustees, composed of the Executive Director of the FAFAA (who served as ERS' President), the Commonwealth's Secretary of the Treasury, the Director of the PROMB, the Director of the Office of Human Resources of the Commonwealth, a representative of the teachers from the DOE, a representative from the public corporations, a representative from the Judicial Branch, the President of the Federation of Mayors, the President of the Association of Mayors, and four representatives of the public interest. After August 23, 2017, ERS is administered by the Retirement Board of the Government of Puerto Rico (the Retirement Board) which also administers the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired plan members. After the enactment of Act 106-2017, ERS operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund after the legal proceedings under the Title III of PROMESA are completed. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of ERS. Therefore, the basic financial statements of ERS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Ponce Authority (PA) (Previously Known as Port of the Americas Authority) – On August 12, 2016 the Governor signed into law Act No. 176-2016, known as "Law of the Ponce Authority", to amend various articles from Act No. 171-2002. Act No. 176-2016 re-named the Port of the Americas Authority to Ponce Authority, changed the PA's governance structure, and expanded its purposes, faculties and powers, including through the creation of a new Coordinated Infrastructure Master Plan for the City of Ponce. After the enactment of Act No. 176-2016, PA is now governed by a seven member board co-presided by the Secretary of the DEDC and the Director of the Ponce Territorial Order Office. The other members include (1) the Secretary of the Department of Natural and Environmental Resources (DNER), (2) an architect or certified planner, who is a resident of Ponce and appointed by the Governor with the consent of the Senate, (3) an economist, who is a resident of Ponce and appointed by the Governor with the consent of the Senate, (4) a civil engineer, who must be a resident of Ponce and appointed by the Mayor of Ponce with the consent of the Municipal Legislature, and (5) a small businesses representative, who must be a resident of Ponce and appointed by the Mayor of Ponce with the consent of the Municipal Legislature. The main purpose of the PA is the promotion, development, improvement and operation of the large-scale container terminal in the city of Ponce, Puerto Rico. The PA must also prepare a coordinated master plan for the Infrastructure of Ponce. The Commonwealth provides financial support to the PA through legislative appropriations and its current existing debt is guaranteed by the Commonwealth pursuant to the provisions of Act No. 409 of September 22, 2004 (Act No. 409-2004). The Commonwealth continues to provide financial support to this new entity. Therefore, PA's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

Ponce Ports Authority (PPA) – On December 12, 2011, Act No. 240 (Act No. 240-2011) was approved creating the PPA, with a seven-member board composed of (1) the Secretary of the Department of Economic Development and Commerce (DEDC), (2) the director of the Ponce port, (3) three members to be appointed by the Governor with the consent of the Senate and (4) two members to be appointed by the Mayor of Ponce with the consent of the Ponce Municipal Legislature.

PPA was created to continue the development of the container terminal formerly undertaken by Ponce Authority (PA) and to implement the facilities' future operations. Therefore, all the assets, rights and duties of PA (with the exception of its existing debt) would be transferred to PPA. Effective fiscal year 2015, the PPA board was formed and operations started. However, as of June 30, 2018, the PA assets have not been transferred to PPA. On December 19, 2013, Act No. 156 was approved amending Act No. 240-2011 by, among other things, authorizing PPA to request a line of credit of up to $60 million from GDB and establishing that the payment of such debt would be satisfied with annual Commonwealth's legislative appropriations starting in fiscal year 2015. As the total debt outstanding of PPA is payable from Commonwealth's legislative appropriations, PPA's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund.

Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) – On April 6, 2016, Act No. 21 (Act No. 21-16) was approved creating the FAFAA as an independent public corporation and government instrumentality with separate legal existence, fiscal and administrative autonomy, and independence from the Commonwealth. FAFAA was created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Commonwealth, its agencies, instrumentalities, subdivisions, public corporations and/or municipalities, and to assist such entities in confronting the fiscal and economic emergency that Puerto Rico is experiencing. The FAFAA assumed the fiscal agency and financial advisory responsibilities that were previously held by the Government Development Bank (GDB). On January 18, 2017, the Governor of Puerto Rico (the Governor) signed into law the Enabling Act of the Fiscal Agency and Financial Advisory Authority, Act No. 2-2017. This new law amended and replaced sections of the prior law that established FAFAA. Act No. 2-2017 expanded FAFAA's powers to include, among other things, sole responsibility to renegotiate, to restructure and/or to reach an agreement with creditors on all or part of the public debt or any other debt issued by any government entity. In addition, FAFAA is the entity in charge of the collaboration, communication and cooperation efforts between the Commonwealth and the Oversight Board, created under PROMESA.

The Board of Directors of FAFAA was initially composed of only one member appointed by the Governor but upon the enactment of Act No. 2-2017 the Board is now composed of five members: (1) FAFAA's Executive Director appointed by the Governor, (2) a representative of the Senate of Puerto Rico, (3) a representative of the House of Representatives of Puerto Rico which will be appointed by the President of each Legislative Body, and (4) two members appointed by the Governor. The members can only be replaced and/or removed by the entity who appointed them. The members of the Board of Directors will select a President, Vice-President and Secretary among them. FAFAA does not have legal authority to issue bonds, notes or any other debt instrument; however, it will be the principal financial advisor in future debt issuances of any instrumentality of the Commonwealth. FAFAA's annual budget will be assigned by the Legislature of Puerto Rico (the Legislature) with available funds from the General Fund, special assignments or any other identified revenue.

Puerto Rico Health Insurance Administration (PRHIA) – PRHIA is governed by a board of directors, which, by law, is composed of eleven members (six compulsory members and five discretionary members). The compulsory members are the Secretary of the Department of Health (PRDOH) of the Commonwealth, the Secretary of the Department of Treasury (DOT) of the Commonwealth, the Director of the Office of Management and Budget of the Commonwealth (PROMB), the Executive Director of FAFAA, the Insurance Commissioner of Puerto Rico, and the Administrator of the Administration of Services of Mental Health and Addiction. The five discretionary members are

appointed by the Governor, with the advice and consent of the Senate. The board of directors' president is designated by the Governor and all discretionary board members are executives in a trustworthy position. PRHIA was created for the purpose of implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals (via the Medicaid program administered and funded primarily by the Centers for Medicare and Medicaid Services through a memorandum of understanding with the PRDOH); and also to employees of the Commonwealth, Municipalities and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan in exchange for a fee paid by them through payroll deductions. PRHIA also recovers its operating costs through charges made to Municipalities and a rebate program with pharmacies where PRHIA retains 100% of the income derived from this program. Since 2015, the Commonwealth appropriates funds from its general fund budget to provide resources for the payment of principal and interest on PRHIA's line of credit obligation, which is the total debt outstanding of PRHIA. Therefore, PRHIA's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund.

Puerto Rico Infrastructure Financing Authority (PRIFA) – PRIFA is governed by a seven member board comprised of five members appointed by the board of directors of the FAFAA, the Secretary of the DOT and one member appointed by the Governor. The members of PRIFA's board of directors are executives in trustworthy positions, named and supervised by the Governor. The President is appointed by the Governor from among its members. PRIFA is a financing authority whose responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's total debt outstanding, mostly Special Tax Revenue Bonds comprising over 95% of its total debt, is payable from federal excise taxes levied on the rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Department of the Treasury and returned to the Commonwealth. These revenues are the subject of pending litigation in the Commonwealth's Title III case. PRIFA's remaining debt, other than the Special Tax Revenue Bonds, is payable from Commonwealth legislative appropriations. Therefore, PRIFA's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue, debt service and capital project fund.

Puerto Rico Maritime Shipping Authority (PRMSA) – PRMSA is governed by the Executive Director of FAFAA. The operations of PRMSA have been limited to processing the remaining legal requirements resulting from the sale of certain maritime operations formerly owned and operated by PRMSA. Such legal requirements consist solely of servicing the long-term debt that remained in PRMSA after the sale. The Commonwealth should appropriate annually funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding. Therefore, PRMSA's basic financial statements are blended in the Commonwealth's fund financial statements as a debt service fund.

Puerto Rico Medical Services Administration (PRMeSA) – PRMeSA is governed by a ten member board comprised of the Secretary of the PRDOH (who serve as the Chairman), the Dean of the Medical Sciences Faculty of the University of Puerto Rico (UPR), the President of the board of directors of the Puerto Rican League Against Cancer, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the PRDOH. PRMeSA's purpose is to plan, organize, operate, and administer the

Commonwealth's centralized health services, and provide support for the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth should annually appropriate funds from its general operating budget to provide for the payment of principal and interest of its debt, which is the total debt outstanding of PRMeSA. Therefore, PRMeSA's basic financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund.

Puerto Rico Sales Tax Financing Corporation (Known as COFINA, its Spanish Acronym) – COFINA was created under Act No. 91-2006, as amended by the Legislature. COFINA was originally created for the purpose of financing the payment, retirement, or defeasance of certain debt obligations of the Commonwealth outstanding at June 30, 2006 (the 2006 Appropriation Debt). During 2009, the Legislature expanded the purposes of COFINA to assist in funding operational expenses of the Commonwealth for 2009 through 2012, to the extent included in the annual budget of the Commonwealth. As of June 30, 2018, the board of directors of COFINA is comprised of three members appointed by the Governor. Because COFINA's Sales Tax Revenue Bond obligations have historically been repaid with the Commonwealth's sales and use taxes as described in Note 13, its basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund. As discussed in Note 3 and Note 17, COFINA has successfully completed its restructuring pursuant to a court-confirmed plan of adjustment under Title III of PROMESA, which became effective on February 12, 2019.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – TRS is a single employer trust created by the Legislature for the purpose of providing pension and other benefits to all teachers of the DOE, all pensioned teachers, all teachers transferred to an administrative position in the DOE, and those who practice in private institutions accredited by the DOE who elect to become members. TRS provides retirement, death, and disability benefits. After the enactment of Act 106-2017 on August 23, 2017, TRS is governed by the same board of trustees as ERS and is administered by the Retirement Board, which also administers the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC). TRS MIPC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired teachers of the DOE and retired employees of TRS Administration. After the enactment of Act 106-2017, TRS operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of TRS. Therefore, the basic financial statements of TRS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Public Buildings Authority (PBA) – PBA is governed by a seven member board comprised of the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the Department of Education (DOE) of the Commonwealth, the President of the GDB, and four- members appointed by the Governor with the advice and consent of the Senate. As provided under Act No. 2-2017, the board member position previously occupied by the President of the GDB is currently held by the Executive Director of FAFAA as of January 18, 2017. PBA is a legally separate entity, whose activities are blended within the Primary Government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities to the Commonwealth's departments, component units, and instrumentalities. Bonds issued by the PBA to finance such facilities are payable from the rent revenues of certain government facilities leased by PBA and are further supported by a guarantee of the Commonwealth. Therefore, the basic financial statements of the PBA are blended in the Commonwealth's fund financial statements as a special revenue, debt service, and capital project fund. On September 27, 2019, the Financial Oversight and Management

Board for Puerto Rico (the Oversight Board)—at the request of the Governor—commenced a Title III case for PBA by filing a petition for relief under Title III of PROMESA in the Title III Court.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) – JRS is a single employer defined benefit plan that covers all active judges or retired judges of the judiciary branch of the Commonwealth. After the enactment of Act 106-2017 on August 23, 2017, JRS is governed by the same board of trustees as ERS and is administered by the Retirement Board. After the enactment of Act 106-2017, JRS operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund. The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of JRS. Therefore, the basic financial statements of JRS are blended in the Commonwealth's funds financial statements as a special revenue fund.

Special Communities Perpetual Trust (SCPT) – SCPT is governed by a board of directors composed of eleven members: the Secretary of the Department of Housing of the Commonwealth (the Commonwealth DOH), the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one Mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. Over the years since its inception, SCPT has seen its revenue sources diminish as its principal assets, mortgage loans, are being fully reserved. SCPT has accumulated debt with the GDB, which is payable from Commonwealth Legislative appropriations. Therefore, SCPT's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

The Children's Trust – The Children's Trust is governed by a seven member board comprised of the Governor, who designates the president of the board, the Executive Director of FAFAA, the Director of the PROMB, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Children's Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the wellbeing of families, children, and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Children's Trust is financed with the moneys being received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies should continue making contributions in perpetuity. As the Children's Trust provides financial assistance entirely or almost entirely to the Commonwealth's departments and its total debt outstanding is being repaid with the GSA resources received by the Commonwealth, its basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) – UPRCCC is governed by a nine member board comprising of four ex officio members: the President of the UPR, the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the PRDOH, and the Dean of the UPR School of Medicine. The remaining (5) five members must be citizens of Puerto Rico who have shown commitment to the fight against cancer, and are appointed by the Governor with the approval of the Commonwealth Senate with the following criteria: two members from the investigative studies or

cancer treatment community; one member with experience in management, finance, or business administration, or with previous experience managing hospitals or medical investigation clinics; one member who is a cancer patient; and one member who will be a member of the "Liga Puertorriqueña Contra el Cancer." The Commonwealth provides financial support to UPRCCC through legislative appropriations. The UPRCCC was created by Act No. 230 of August 26, 2004 (Act No. 230-2004), to be the governmental entity principally responsible to execute public policy related to the prevention, orientation, investigation and treatment of cancer in Puerto Rico. On October 31, 2013, Act No. 128 (Act No. 128-2013) was approved amending Act No. 230-2004 in order to specifically establish that beginning with fiscal year 2015, annual Commonwealth legislative appropriations of $15 million could be made available to cover the debt service of the obligations incurred by the UPRCCC in its capital related projects, particularly the construction of its medical and hospital facilities. Prior to Act No. 128-2013, Act No. 230-2004 was not conclusive as to the revenue source from which to repay the aforementioned debt service. As the total debt outstanding is payable from Commonwealth's legislative appropriations, UPRCCC's basic financial statements are blended in the Commonwealth's fund financial statements as a special revenue fund.

The COFINA Debt Service Fund, the COFINA Special Revenue Fund and the ERS Special Revenue Fund are presented as major governmental funds, while PRMeSA and PRHIA are presented as major enterprise funds. All the other blended component units are reported in the nonmajor governmental funds column, except for PPA, which is reported in the nonmajor enterprise funds column. Complete basic financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the
Government of the Commonwealth of Puerto Rico
P.O. Box 42003 – Minillas Station
San Juan, PR 00940-2203

Ponce Authority
P.O. Box 195534
San Juan, PR 00919-5534

Ponce Ports Authority
P.O. Box 7051
Ponce, PR 00752

Puerto Rico Fiscal Agency and Financial
Advisory Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Health Insurance Administration
P.O. Box 195661
San Juan, PR 00919-5661

Puerto Rico Infrastructure Financing Authority
P.O. Box 41207 Minillas Station
San Juan, PR 00940

Puerto Rico Maritime Shipping Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Medical Services Administration
P.O. Box 2129
San Juan, PR 00922-2129

Puerto Rico Sales Tax Financing Corporation
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico System of Annuities and Pensions for
Teachers
P.O. Box 191879
San Juan, PR 00919-1879

Public Buildings Authority
P.O. Box 41029 – Minillas Station
San Juan, PR 00940-1029

Retirement System for the Judiciary of the
Commonwealth of Puerto Rico
P.O. Box 42003 – Minillas Station
San Juan, PR 00940-2203

Special Communities Perpetual Trust
P.O. Box 42001
San Juan, PR 00940-2001

The Children's Trust
P.O. Box 42001
San Juan, PR 00940-2001

University of Puerto Rico Comprehensive
Cancer Center
PMB 711, 89 De Diego Ave., Suite 105
San Juan, PR 00927-6346

(ii) Discretely Presented Component Units

The discretely presented component units described below, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and No. 61, are discretely presented in the basic financial statements principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority and the Puerto Rico Science, Technology and Research Trust, which do not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude them from the Commonwealth's financial reporting entity). These discretely presented component units are not blended with the Primary Government because they do not provide services entirely, or almost entirely to the Primary Government, their governing board is not substantively the same as that of the Primary Government, the Primary Government does not have any operational responsibilities over them, and they do not have total debt outstanding being repaid entirely or almost entirely with resources of the Primary Government. These discretely presented component units have been classified by management between major and nonmajor discretely presented component units. A major discretely presented component unit is determined by the Commonwealth based on the nature and significance of its relationship to the Primary Government. This determination is based on the evaluation of the following factors: a) the services provided by the discretely presented component unit to the citizenry are such that separate reporting as a major discretely presented component unit is considered to be essential to financial statement users, b) there are significant transactions with the Primary Government, or c) there is a significant financial benefit or burden relationship with the Primary Government. If a discretely presented component unit is expected to meet some of these considerations for inclusion as major discretely presented component unit in a future year, the Commonwealth may elect to report it as such.

Major Discretely Presented Component Units

Government Development Bank for Puerto Rico (GDB) – Prior to its decision on March 23, 2018 to cease operations and wind down under Title VI of PROMESA, GDB was governed by a seven member board appointed by the Governor. GDB's board of directors' members were executives in a trustworthy position, named and supervised by the Governor. When operating prior to March 23, 2018, GDB acted as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also issued warranties to third parties, made loans, and advanced funds predominantly to the Commonwealth's departments, component units, and municipalities.

Act No. 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (the Moratorium Act), created FAFAA to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities. This new fiscal agency and advisory authority commenced its functions as described above immediately upon the Moratorium Act's enactment. The Moratorium Act did not have an impact on the designation of GDB as a major discretely presented component unit for fiscal year 2018. The scope of FAFAA's powers were substantially expanded under Act No. 2-2017, as discussed in Note 3 and Note 23. For additional information regarding the Moratorium Act, refer to Note 3 and Note 23.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – PRASA is governed by a nine member board comprising of six members appointed by the Governor with the advice and consent of the Senate (including the President of the Puerto Rico Planning Board), the Executive President of the Puerto Rico Electric Power Authority (PREPA), the Executive Director of Mayors' Federation, and the

Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds at the date of refinancing. Act No. 45-1994 was later amended to include other loans under the Clean Water State Revolving Funds Program (SRFP) and under the USDA Rural Development Program. The Commonwealth historically provided certain financial support to PRASA through legislative appropriations for debt service of its Public Finance Corporation (PFC) notes.

Puerto Rico Electric Power Authority (PREPA) – PREPA is governed by a seven member board, six of which are appointed by the Governor and one member is an elected consumer representative. PREPA is responsible for conserving, developing, and utilizing the power resources in order to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth is entitled to receive contributions in lieu of taxes from PREPA.

Puerto Rico Highways and Transportation Authority (PRHTA) – PRHTA is governed by a seven member board comprising of the Secretary of DTPW (serving as the President of the board), the President of the Planning Board (PRPB), the Secretary of the DOT, the Executive Director of FAFAA, and three other members from the private sector appointed by the Governor with the advice and consent of the Senate. The PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by the PRHTA (including the ability to set tolls for the use of the highway facilities subject to compliance with certain public hearing requirements), and the power to issue bonds, notes, or other obligations. The PRHTA plans and manages the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways.

State Insurance Fund Corporation (SIFC) – SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board comprises the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources (DLHR) of the Commonwealth, an officer from the PRDOH, a representative of the employers' interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

University of Puerto Rico (UPR) – The UPR is governed by a thirteen member Governing Board, nine of which are appointed by the Governor and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full time students. The Secretary of the DOE becomes an ex officio member of the governing board. The Commonwealth provides financial support to the UPR through legislative appropriations.

Nonmajor Discretely Presented Component Units

Agricultural Enterprises Development Administration (AEDA) – AEDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of AEDA is to provide a wide variety of services and incentives to the agricultural sector. The Commonwealth has the ability to impose its will on AEDA. The Commonwealth provides financial support to AEDA through legislative appropriations.

Automobile Accidents Compensation Administration (AACA) – AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. The AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth has the ability to significantly influence rates charged by the AACA. The Commonwealth has access to AACA's resources.

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC) – CCCPRC is governed by a seven member board comprising of the Secretary of the PRDOH, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the PRMeSA, and four additional members appointed by the Governor with the advice and consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to the CCCPRC through legislative appropriations.

Center of Diabetes for Puerto Rico (CDPR) – CDPR is governed by a nine member board, which include the Secretary of the PRDOH, the dean of the School of Medical Sciences of the UPR, the other seven member are appointed by the Governor. The CDPR was created to be responsible for the planification, organization, operation and administration of investigative services, orientation prevention and treatments of diabetes in Puerto Rico. The Commonwealth provides financial support to the CDPR through legislative appropriations.

Company for the Integral Development of the "Península de Cantera" (CIDPC) – CIDPC is governed by an eleven member board, of which six members are appointed by the Governor and five members are appointed by the Mayor of the Municipality of San Juan. The CIDPC was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area. The Commonwealth generally provides financial support to the CIDPC.

Corporation for the "Caño Martín Peña" ENLACE Project (CPECMP) – CPECMP was created for the purpose of coordinating the public policy related to the rehabilitation of the Caño Martín Peña area. The CPECMP is governed by a board of directors of thirteen members of which seven members are appointed by the Governor and six members are appointed by the Mayor of the Municipality of San Juan. The Commonwealth generally provides financial support to the CPECMP through legislative appropriations.

Culebra Conservation and Development Authority (CCDA) – CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the Municipality of Culebra. The CCDA is administered through a board of directors composed of five members, including the Mayor of the Municipality of Culebra and four additional members appointed by the Mayor of the Municipality of Culebra and confirmed by the municipal legislature. The administration and operations of the CCDA are conducted by an executive director elected by the board of directors. The Commonwealth provides financial support to the CCDA through legislative appropriations. Although CCDA's board of directors is not appointed by the Commonwealth and it is not fiscally dependent on the Commonwealth, the Commonwealth believes it would be misleading to exclude it from its reporting entity, given the financial support provided by the Commonwealth.

Economic Development Bank for Puerto Rico (EDB) – EDB is governed by a nine member board comprising of the Executive Director of FAFAA, who is the Chairman, the Secretary of Agriculture of

the Commonwealth, the Secretary of the DEDC, the Executive Director of the Puerto Rico Industrial Development Company (PRIDCO), the Executive Director of the PRTC (Puerto Rico Tourism Company), and four members representing the private sector and appointed by the Governor with the advice and consent of the Senate. Private sector members are appointed for a maximum period of three years. The EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited to economic activities that may have the effect of substituting imports. The Commonwealth has the ability to impose its will on the EDB.

Farm Insurance Corporation of Puerto Rico (FICPR) – FICPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of the FAFAA, and two bona fide farmers appointed by the Governor with the advice and consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth has the ability to impose its will on the FICPR.

Fine Arts Center Corporation (FACC) – FACC is governed by a nine member board comprising of the President of the Musical Arts Corporation (MAC) and eight members named by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

Independent Consumer Protection Office (ICPO) – ICPO is overseen by the Director appointed by the Governor with the advice and consent of the Senate. ICPO is also managed by an executive director who works together with the Puerto Rico Energy Affairs Administration and provides technical advice to the commissioners. ICPO is the key component for the faithful and transparent execution of the Puerto Rico Energy Reform. The Puerto Rico Energy Commission, an entity included within the primary government of the Commonwealth, provides financial support to the ICPO equivalent to the 10% of the contributions received from PREPA.

Institute of Puerto Rican Culture (IPRC) – IPRC is governed by a nine member board comprising of the President of MAC and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities, and culture. The Commonwealth provides financial support to the IPRC through legislative appropriations.

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) – ITNGPR is governed by a seven member board comprising of the Adjutant General of the Puerto Rico National Guard, the Executive Director of FAFAA, the Secretary of Justice of the Commonwealth, three members of the military from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active members of the Puerto Rico National Guard and their families. The Commonwealth generally provides financial support to the ITNGPR through legislative appropriations and has the ability to impose its will on the ITNGPR.

Land Authority of Puerto Rico (LAPR) – LAPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR was created to carry out the provisions of the Land Law of Puerto Rico, principally geared to the agricultural development of Puerto Rico. LAPR maintains debt that is payable from Commonwealth's appropriations and funds generated by LAPR operations.

Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (LRA) – LRA is governed by a nine member board comprising of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential, and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management. The LRA is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation, and maintenance of the economic development on the land and facilities formerly occupied by the U.S. Navy. The Commonwealth generally provides financial support to the LRA through legislative appropriations.

Musical Arts Corporation (MAC) – MAC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) – PCSDIPRC is governed by a nine member board comprising of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the DOT, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth has the ability to impose its will on PCSDIPRC.

Puerto Rico Conservatory of Music Corporation (PRCMC) – PRCMC is governed by a seven member board appointed by the Governor, with the advice and consent of the Senate. The PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and private citizens. The Commonwealth occasionally provides financial support to the PRCMC through legislative appropriations.

Puerto Rico Convention Center District Authority (PRCCDA) – PRCCDA is governed by a nine member board of directors comprising of three members from the public sector and six members from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Executive Director of the PRTC, and the Executive Director of FAFAA. The private sector members are individuals having experience in the areas of hotel operations, tourism, real estate, convention centers, and at least one with financial expertise who are appointed by the Governor with the advice and consent of the Senate. PRCCDA was created to be responsible, for improving, developing, managing, and operating the property and improvements within the Puerto Rico Convention Center District (the District) geographical area. PRCDA has the power to finance all the improvements to be

developed through the issuance of bonds and the imposition of assessments against the owners or lessees of land within the District who benefit from the Convention Center and other improvements. Also, PRCCDA promotes the development, construction, expansion and improvement of the Puerto Rico Convention Center (Convention Center), Bahía Urbana, and the Jose Miguel Agrelot Coliseum (the Coliseum). The administration, operation and management of the Convention Center and the Coliseum are carried out by a third-party private entity, under PRCDDA's responsibility. Bahía Urbana is administered by PRCCDA's management. The Commonwealth provides financial support to the PRCCDA through legislative appropriations.

Puerto Rico Council on Education (PRCE) – PRCE is governed by a board comprising of nine members appointed by the Governor with the consent of the Senate. Its purpose is to develop higher education, to administer the licensing and certification of institutions of higher education, and to administer scholarship funds. The Commonwealth provides financial support to the PRCE through legislative appropriations.

Puerto Rico Energy Commission (PREC) – PREC is governed by a board of directors composed of a commissioner President and two associate commissioners, all appointed by the Governor with the advice and consent of the Senate. The first commissioner President and two associate commissioners appointed will occupy their positions for six years, four years and two years, respectively, with succeeding commissioners to be appointed for a term of six years. PREC was created on May 27, 2014 pursuant Act No. 57, also known as the Puerto Rico Energy Transformation and Relief Act. Under the provisions of Act No. 57-2014, PREC functions as an independent government entity in charge of regulating, overseeing and ensuring compliance with the public policy on energy of the Commonwealth and with the authority to approve electric rates proposed by PREPA, among other responsibilities. Act No. 57-2014 requires PREPA to appropriate annually $5.8 million for PREC's operations, to be remitted to the PREC through special accounts established at the DOT. The Commonwealth also has the ability to impose its will on PREC. Pursuant to a restructuring of PREC in 2019, PREC is now known as the Puerto Rico Energy Bureau (PREB).

Puerto Rico Industrial Development Company (PRIDCO) – PRIDCO is governed by a seven member board comprising of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the DOT, the Executive Director of FAFAA, the President of the Puerto Rico Planning Board (PRPB), and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth's sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are used for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that is payable from Commonwealth's appropriations. The Commonwealth generally provides financial support to PRIDCO through legislative appropriations and has the ability to impose its will on PRIDCO.

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA, its Spanish acronym) – AFICA is governed by a seven member board comprising of the Executive Director of PRIDCO, the Executive Director of FAFAA, the Executive Director of PRIFA, the Executive Director of the Puerto Rico Tourism Company (PRTC), the President of the Environmental Quality Board (EQB), and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use

by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units. The Commonwealth has the ability to impose its will on AFICA.

Puerto Rico Integrated Transit Authority (PRITA) – PRITA is governed by a nine member board comprising of the Secretary of the DTPW, who serves as Chairman, the Executive Director of PRHTA, the President of the PRPB, the Director of PROMB, the Executive Director of FAFAA, two additional members from the private sector appointed by the Governor with the advice and consent of the Senate and two other members representing entities within the Metropolitan Planning Organization, who are selected through the vote from its own Board of Directors. PRITA was created by Act No. 123 of August 3, 2014 (Act No. 123-2014) for the purpose of implementing a uniform public policy on collective, road and maritime transportation, and with it the integration of the operations, assets, rights, obligations and funds of PRHTA's urban train, the Puerto Rico Metropolitan Bus Authority (PRMBA) and the Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA). As of June 30, 2018, PRITA was still in the process of obtaining the required approvals from local and federal authorities to integrate and officialize the merger of the urban train, PRMBA and PRMIMTA into PRITA. The Commonwealth generally provides financial support to PRITA through legislative appropriations and PRITA will transfer the necessary funds to the PRHTA, PRMBA and PRMIMTA, when they are engaged in construction, operations and maintenances of Mass, Rail and Maritime Transportation Facilities.

Puerto Rico Land Administration (PRLA) – PRLA is governed by an eleven member board comprising of the Secretary of Economic Development and Commerce of the Commonwealth, who serves as President, the President of the PRPB, who serves as Vice President, the Secretary of the DOT, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of PRIDCO, and four members appointed by the Governor with the advice and consent of the Senate. The PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA) – PRMIMTA is governed by a five member board comprising of the Secretary of DTPW, who serves as President, the Executive Director of the Puerto Rico Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The operations of PRMIMTA consist of administering and operating the maritime transportation services between San Juan, Fajardo, Vieques, and Culebra. The Commonwealth generally provides financial support to PRMIMTA through legislative appropriations. Act No. 123-2014, which created PRITA, provided for the integration of PRMIMTA's operations into PRITA; however, as of June 30, 2018, PRMIMTA's operations, assets, rights, obligations and funds had not been transferred.

Puerto Rico Metropolitan Bus Authority (PRMBA) – PRMBA is governed by the Secretary of DTPW of the Commonwealth. The PRMBA provides bus transportation to passengers within the San Juan Metropolitan Area. The Commonwealth provides financial support to the PRMBA through the transfer of certain gasoline and diesel excise taxes collected by the Commonwealth. Act No. 123-2014, which created PRITA, and provided for the integration of PRMBA's operations into PRITA; however, as of June 30, 2018, PRMBA's operations, assets, rights, obligations and funds had not been transferred.

Puerto Rico Municipal Finance Agency (PRMFA) – PRMFA is governed by a five member board comprising of the Executive Director of FAFAA, who is the Chairman, the Commissioner of Municipal

Affairs, and three additional members appointed by the Governor, one of whom must be either the Mayor or chief financial officer of a municipality. The PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs. The Commonwealth is required to cover any potential deficiency that may exist on the PRMFA reserve accounts established for debt service.

Puerto Rico Municipal Finance Corporation (Known as COFIM, for its Spanish Acronym) – COFIM is governed by a seven member board comprising of three members of the Board of Directors of FAFAA, three Mayors from municipalities in Puerto Rico (two of them from the political party controlling the majority of municipalities and the remaining Mayor elected by the rest of the municipalities) and one member representing the public interest recommended by all the Mayors of the municipalities and ratified by the Governor. COFIM was created by Act No. 19-2014 to issue bonds and use other financing mechanisms to pay or refinance, directly or indirectly, all or a portion of the municipalities' debt obligations payable from the municipal sales and use tax. The Commonwealth is required to cover any potential deficiency that may exist on the COFIM reserve accounts established for debt service.

Puerto Rico Ports Authority (PRPA) – PRPA is governed by a five member board consisting of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of the DEDC, the Executive Director of the PRTC, the Executive Director of PRIDCO and one private citizen appointed by the Governor with the consent of the Senate. The purpose of the PRPA is to administer all owned ports and aviation transportation facilities of the Commonwealth and to render other related services, including the supervision and monitoring over the service concession arrangement of the Luis Muñoz Marin International Airport, as further described in Note 17. The Commonwealth generally provides financial support to the PRPA through legislative appropriations.

Puerto Rico Public Broadcasting Corporation (PRPBC) – PRPBC is governed by an eleven member board of directors comprising of the Secretary of the DOE, the President of the UPR, the Executive Director of the IPRC, and eight private citizens appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. The PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to the PRPBC through legislative appropriations.

Puerto Rico Public Private Partnerships Authority (PPPA) – PPPA is governed by a five member board of directors comprising of the Executive Director of FAFAA, the Secretary of the DOT, the President of the PRPB, and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. The PPPA is the only government entity authorized and responsible for implementing public policy on public private partnerships established by Act No. 29-2009, as amended, and to determine the functions, services, or facilities for which such Partnerships will be established. The Commonwealth generally provides financial support to the PPPA through legislative appropriations.

Puerto Rico School of Plastic Arts (PRSPA) – PRSPA is governed by a seven member board. Four members are appointed by the board of directors of the IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three members are elected from among the members of the board of directors of the IPRC, one of whom serves as president. The PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help

students to develop humanistic values. The Commonwealth generally provides financial support to the PRSPA through legislative appropriations.

Puerto Rico Science, Technology and Research Trust (PRSTRT) – PRSTRT is governed by an eleven member board of trustees comprising of five members ex officio representing certain Primary Government agencies and public corporations: the Secretary of the DEDC, the President of the UPR, the Director of PROMB, the Executive Director of FAFAA and the Executive Director of PRIDCO; and six additional trustees appointed by the board of trustees. The PRSTRT was created by Act No, 214-2004, as amended, to foster and fund research, development and infrastructure projects related to science and technology to promote the economic, social or educational development of the Commonwealth and to operate exclusively for charitable, educational and scientific purposes. The PRSTRT was initially financially supported through various sources including moneys from certain UPR's funds, private donations and legislative appropriations which have not recurred during the past several years. But recently, most of the funds come indirectly from the Commonwealth's contributions into several funds that are managed and administered by PRIDCO, which in turn makes such funds available to PRSTRT. The PRSTRT's board of trustees is not appointed by the Commonwealth. The Commonwealth believes it would be misleading to exclude it from its reporting entity, given the substantial indirect financial support provided by the Commonwealth and the fact that PRSTRT was created by law to implement and execute the Commonwealth's scientific research mission and can be eliminated by actions of the Commonwealth. The Commonwealth generally provides financial support to the PRSTRT through legislative appropriations.

Puerto Rico Telephone Authority (PRTA) – PRTA is governed by a five member board comprising of the Executive Director of FAFAA and four members that are appointed by the board of directors of the FAFAA from among the FAFAA board members, all of which are appointed by the Governor. PRTA is the legal entity responsible to account for the equity interest in Telecommunications de Puerto Rico, Inc. PRTA is currently inactive and waiting for a legislative process to arrange its liquidation. The Commonwealth generally provides financial support to the PRTA through legislative appropriations.

Puerto Rico Tourism Company (PRTC) – PRTC is governed by a seven member board comprising of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to the PRTC through legislative appropriations.

Puerto Rico Trade and Export Company (PRTEC) – PRTEC is governed by a nine member board comprising of the Secretary of the DEDC, who is the Chairman, the Executive Director of the PRPA, the Secretary of the Department of Agriculture (DOA), the President of the EDB, the Executive Director of PRIDCO, the Legal Division Director of the PRTEC, and three private citizens. The PRTEC has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium sized enterprises while promoting the export of products and services from Puerto Rico to other countries. The Commonwealth has the ability to impose its will on the PRTEC.

Solid Waste Authority (SWA) – SWA is governed by a board appointed by the Secretary of the DNER, whereby, the Secretary and the Executive Director of SWA periodically meet. SWA provides alternatives for processing of solid waste and encourages recycling, reuse, and recovery of resources from waste. The Commonwealth provides financial support to SWA through legislative appropriations.

Complete basic financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Agricultural Enterprises Development Administration
P.O. Box 9200
Santurce, PR 00908-0200

Automobile Accidents Compensation Administration
P.O. Box 364847
San Juan, PR 00936-4847

Cardiovascular Center Corporation of Puerto Rico and the Caribbean
P.O. Box 366528
San Juan, PR 00936-6528

Center of Diabetes for Puerto Rico
P.O. Box 70344 PMB-87
San Juan, PR 00936

Company for the Integral Development of the "Península de Cantera"
P.O. Box 7187
Santurce, PR 00916-7187

Corporation for the "Caño Martín Peña" ENLACE Project
P.O. Box 41308
San Juan, PR 00940-1308

Culebra Conservation and Development Authority
P.O. Box 217
Culebra, PR 00775-0217

Economic Development Bank for Puerto Rico
P.O. Box 2134
San Juan, PR 00922-2134

Farm Insurance Corporation of Puerto Rico
P.O. Box 9200
Santurce, PR 00908

Fine Arts Center Corporation
P.O. Box 41287 – Minillas Station
San Juan, PR 00940-1287

Government Development Bank for Puerto Rico
P.O. Box 42001
San Juan, PR 00940-2001

Independent Consumer Protection Office
524 Ponce de León Ave.
San Juan, PR 00918-1314

Institute of Puerto Rican Culture
P.O. Box 9024184
San Juan, PR 00902-4184

Institutional Trust of the National Guard of Puerto Rico
P.O. Box 9023786
San Juan, PR, 00902-3786

Land Authority of Puerto Rico
P.O. Box 9745
Santurce, PR 00908-9745

Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads
400 Calaf Street, PMB 456
San Juan, PR 00918-1314

Musical Arts Corporation
P.O. Box 41227
San Juan, PR 00940-1227

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
P.O. Box 195449
San Juan, PR 00919-5449

Puerto Rico Aqueduct and Sewer Authority
P.O. Box 7066
San Juan, PR 00916-7066

Puerto Rico Conservatory of Music Corporation
951 Ponce de León Ave.
San Juan, PR 00907-3373

Puerto Rico Convention Center District Authority
P.O. Box 19269,
San Juan, Puerto Rico, 00910-1269

Puerto Rico Council on Education
P.O. Box 19900
San Juan, PR 00910-1900

Puerto Rico Energy Commission
268 Munoz Rivera Avenue
San Juan, PR 00918

Puerto Rico Electric Power Authority
P.O. Box 364267
San Juan, PR 00936-4267

Puerto Rico Government Investment Trust Fund
P.O. Box 42001, Millas Station
San Juan, Puerto Rico 00940-2001

Puerto Rico Highways and Transportation Authority
P.O. Box 42007
San Juan, PR 00940-2007

Puerto Rico Industrial Development Company
P.O. Box 362350
San Juan, PR 00936-2350

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Integrated Transit Authority
P.O. Box 41267
San Juan, PR 00940

Puerto Rico Land Administration
P.O. Box 363767
San Juan, PR 00936-3767

Puerto Rico and Municipal Islands Maritime Transport Authority
P.O. Box 4305
Puerto Real, PR 00740

Puerto Rico Metropolitan Bus Authority
P.O. Box 195349
San Juan, PR 00919-5349

Puerto Rico Municipal Finance Agency
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Municipal Finance Corporation
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Ports Authority
P.O. Box 362829
San Juan, PR 00936-2829

Puerto Rico Public Broadcasting Corporation
P.O. Box 190909
San Juan, PR 00919-0909

Puerto Rico Public Private Partnerships Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico School of Plastic Arts
P.O. Box 9021112
San Juan, PR 00902-1112

Puerto Rico Science, Technology and Research Trust
P.O.Box 363475
San Juan, PR 00936-3475

Puerto Rico Telephone Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Tourism Company
Tanca Street #500, Ochoa Building, 3rd Floor
Old San Juan, PR 00902-3960

Puerto Rico Trade and Export Company
P.O. Box 195009
San Juan, PR 00919-5009

Solid Waste Authority
P.O. Box 40285
San Juan, PR 00940-0285

State Insurance Fund Corporation
P.O. Box 365028
San Juan, PR 00936-5028

University of Puerto Rico
Jardín Botánico Sur
1187 Street Flamboyán
San Juan, PR 00916-1117

The basic financial statements of the discretely presented component units have a fiscal year-end of June 30, 2018.

(c) Component Units Audited Separately

The basic financial statements of the Commonwealth include the basic financial statements of the following component units that were audited by other auditors:

(i) Blended Component Units

Ponce Ports Authority

Ponce Authority (formerly known as Port of the Americas Authority)

Public Buildings Authority

Puerto Rico Fiscal Agency and Financial Advisory Authority

Puerto Rico Health Insurance Administration

Puerto Rico Infrastructure Financing Authority

Puerto Rico Maritime Shipping Authority

Puerto Rico Medical Services Administration

Special Communities Perpetual Trust

The Children's Trust

University of Puerto Rico Comprehensive Cancer Center

(ii) Discretely Presented Component Units

Agricultural Enterprises Development Administration

Automobile Accidents Compensation Administration

Cardiovascular Center Corporation of Puerto Rico and the Caribbean

Center of Diabetes for Puerto Rico

Company for the Integral Development of the "Península de Cantera"

Corporation for the "Caño Martín Peña" ENLACE Project

Culebra Conservation and Development Authority

Economic Development Bank for Puerto Rico

Farm Insurance Corporation of Puerto Rico

Fine Arts Center Corporation

Independent Consumer Protection Office

Institute of Puerto Rican Culture

Institutional Trust of the National Guard of Puerto Rico

Land Authority of Puerto Rico

Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads

Musical Arts Corporation

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives

Puerto Rico Aqueduct and Sewer Authority

Puerto Rico Conservatory of Music Corporation

Puerto Rico Convention Center District Authority

Puerto Rico Council on Education

Puerto Rico Energy Commission

Puerto Rico Highways and Transportation Authority

Puerto Rico Industrial Development Company

Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority

Puerto Rico Integrated Transit Authority

Puerto Rico Land Administration

Puerto Rico and Municipal Islands Maritime Transport Authority

Puerto Rico Metropolitan Bus Authority

Puerto Rico Municipal Finance Agency

Puerto Rico Municipal Finance Corporation

Puerto Rico Ports Authority

Puerto Rico Public Broadcasting Corporation

Puerto Rico Public Private Partnerships Authority

Puerto Rico School of Plastic Arts

Puerto Rico Science, Technology and Research Trust

Puerto Rico Telephone Authority

Puerto Rico Tourism Company

Puerto Rico Trade and Export Company

Solid Waste Authority

State Insurance Fund Corporation

University of Puerto Rico

(d) Basis of Presentation

(i) Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the nonfiduciary activities of the Commonwealth and its discretely presented component units. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from Business-type activities, which rely to a significant extent on fees and charges for services or which are financed and operated in a manner similar to private business enterprises. Likewise, the Primary Government is reported separately from the legally separate discretely presented component units for which the Primary Government is financially accountable. The statement of net position presents the reporting entities'

nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount.
- *Restricted Net Position* – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets use are either, externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

  When both restricted and unrestricted resources are available for use, generally, it is the Commonwealth's policy to use restricted resources first, then the unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. The Commonwealth does not allocate general government (indirect) expenses to other functions. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

(ii) Fund Financial Statements

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities, including those component units, which are required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Major funds are determined using a predefined percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue, or expenditures/expenses of either the

fund category or the governmental and proprietary funds combined. The nonmajor funds are combined in a single column in the fund financial statements.

(iii) *Governmental Funds*

Governmental funds focus on the sources and uses of funds and provide information on near term inflows, outflows, and balances of available resources. The Commonwealth reports the following governmental funds:

- *General Fund* – The General Fund is the primary operating fund of the Commonwealth. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. The General Fund includes transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. The financial resources received and used in the General Fund mostly include: budgeted resources (such as taxes and charges for services), as approved by the Legislature and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, pledged funds, other special revenue and general type funds, and agencies with independent treasuries.
- *Debt Service Fund* – The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs, other than bonds payable from the operations of proprietary fund types, pension trust funds, and component units, either blended or discretely presented.
- *ERS Special Revenue Fund* – The ERS Special Revenue Fund is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund after the legal proceedings under the Title III of PROMESA are completed.
- *COFINA Special Revenue Fund* – The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) was used to account for and report all financial resources of COFINA, except those required to be accounted for and reported in the COFINA Debt Service fund.
- *COFINA Debt Service Fund* – The debt service fund of COFINA was used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.
- *Nonmajor Governmental Funds* – The Commonwealth reports the following blended component units within the nonmajor governmental funds: PBA, FAFAA, The Children's Trust, PRIFA, PRMSA, PA, SCPT, TRS, JRS and the UPRCCC. The nonmajor governmental funds also includes the Commonwealth's capital project fund.

If a component unit is blended, it should be blended with those funds of the Primary Government by including them in the appropriate fund category of the Primary Government. Although the Primary Government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a special revenue fund. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the Primary

Government directly or for discretely presented component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities. Capital project funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of fund balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.
- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority. The highest level of decision-making authority for the Commonwealth is the Legislature and the Governor, and the formal action is the passage of a law specifying the purposes for which amounts can be used.
- *Assigned* – includes fund balance amounts that are constrained by the Commonwealth and are intended to be used for specific purposes that are neither considered restricted nor committed. The Director of the PROMB is authorized to assign an amount for a specific purpose through the approval of budget certificates as required by statute.
- *Unassigned* – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

The Commonwealth uses restricted amounts first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

(iv) *Proprietary Funds*

These funds account for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

The Commonwealth reports the following major proprietary funds:

- *Unemployment Insurance Fund* – This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.
- *PRHIA* –This fund, a blended component unit, accounts for a health insurance system operated through contracts with insurance underwriters to provide quality medical and hospital care to low

income individuals, employees of the Commonwealth and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan.

- *PRMeSA* – This fund, a blended component unit, accounts for the operations of the centralized health services, provided in support of hospitals and other functions offered by the member institutions and consumers of the complex known as Puerto Rico Medical Center.

The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance Fund, Drivers' Insurance Fund, the Lotteries Fund, the Puerto Rico Water Pollution Control Revolving Fund (PRWPCRF), the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (PRSDWTRLF), PPA and the Bureau of Emergency Services 9-1-1.

(v) Fiduciary Funds

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Commonwealth's fiduciary funds:

- *Agency Funds* – These are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

(e) Measurement Focus and Basis of Accounting

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of estimated overpayments (as applicable) and amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period (see Note 1(j) for further description about the period of availability for the principal sources of revenue in the Governmental Activities).

Principal revenue sources considered susceptible to accrual include personal and corporate income taxes (recognized as taxpayers earn the underlying income), sales and uses taxes (recognized as the underlying sales are made), excise taxes (as the underlying import or related activity takes place), property taxes (imposed on real estate property values, as defined), intergovernmental revenue (typically, when related expenditures are incurred), and other taxes and charges for services (typically, as cash is received).

Expenditures are generally recorded when a liability is incurred, as under accrual basis of accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation at June 30, 2018 is reported only in the government-wide financial statements.
- Interest and principal on general long-term obligations and interest on interest rate swap agreements are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.

- Debt service requirements, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and is awaiting payment. Until these criteria are met, these liabilities have been recorded only in the government-wide financial statements.

A summary reconciliation of the difference between total fund balances (deficit) as reflected in the governmental funds balance sheet and net position of Governmental Activities as shown on the government-wide statement of net position is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

A summary reconciliation of the difference between net change in fund balances (deficit) as reflected in the governmental funds statement of revenue, expenditures, and changes in fund balances (deficit) and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of the statement of revenue, expenditures, and changes in fund balances (deficit) of governmental funds to the statement of activities.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Basic Financial Statements – The basic financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major sources of revenue of the Commonwealth's major proprietary funds is as follows:

- *Unemployment Insurance Fund* – Insurance premiums charged to individual employers.
- *PRHIA* – Amounts received through the PRDOH representing payments by the Medicaid Program under Title XIX of the Social Security Act and State Plan, contributions from the Commonwealth to cover the local share to meet the Medicaid Program matching requirements and amounts charged and collected from employers and municipalities for direct health services provided to its members.
- *PRMeSA* – Amounts charged and collected from private citizens, member institutions and municipalities for patient services provided.

(f) Cash, Cash Equivalents and Short-Term Investments

The Commonwealth follows the practice of pooling cash. Cash balances of funds held in the Commonwealth Treasury are commingled in a general checking account and several zero balance bank accounts for special purposes. The available cash balance in the general checking account beyond immediate need is pooled in interest bearing accounts with commercial banks insured with the Federal Deposit Insurance Corporation (FDIC).

Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition. Short-term investments are recorded at cost.

The Puerto Rico Commissioner of Financial Institutions requires that Puerto Rico private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits must be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Department of the Treasury. Interests earned over such deposit is retained in the fund.

Cash and short-term investments and cash equivalents of the component units and certain funds of the Primary Government are maintained in bank accounts, separate from those of the rest of the Primary Government, in their own names. A portion of these financial instruments are invested in GDB deposits. For additional information regarding the cash deposited at GDB as of June 30, 2018, refer to Note 6.

The custodial credit risk, the availability and recoverability of cash and short-term investments is evaluated continuously by the Commonwealth. Refer to Note 6 for custodial credit loss recorded on certain cash and short-term investments. The custodial credit loss of cash and short-term investments held as of June 30, 2018 was determined based on the actual subsequent utilization of such assets.

(g) Securities Purchased/Sold under Agreements to Resell/Repurchase

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell the same securities (resale agreements) and into sales of securities under agreements to repurchase (repurchase agreements). The amounts advanced or received under these agreements generally represent short-term loans and are reflected as an asset in the case of resale agreements and as a liability in the case of repurchase agreements. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage backed securities, and interest-bearing deposits with other banks. Resale and repurchase agreements are authorized transactions under their respective enabling legislation and/or authorized by the Commonwealth fiscal agent.

(h) Securities Lending Transactions

Certain component units of the Commonwealth enter into securities lending transactions in which governmental entities (lenders) transfer their securities to broker dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Cash received as collateral on securities lending transactions and investments made with that cash are reflected as investments. Securities received as collateral are reported as investments if the component unit has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net position. Securities lending transactions collateralized by letters of credit or by securities that the component unit does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net position.

(i) Investments

Investments mainly include U.S. government and agencies' obligations, mortgage backed securities, local government obligations, and corporate debt and equity obligations. Investments and investment contracts are carried at fair value, except for money market investments with a remaining maturity at the time of purchase of one year or less, which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds, and the statement of revenue, expenses, and changes in net position – proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included within interest and investments earnings.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: (i) the market approach, (ii) the cost approach, or (iii) the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – inputs whose values are based are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable.

Level 3 – inputs are unobservable inputs for asset or liability and may require a degree of professional judgment.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commonwealth's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification.

(j) Accounts Receivable, Loans, General Revenue and Unearned Revenue

Income taxes receivables, in both the General Fund balance sheet and statement of net position, include predominantly an estimate of amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income taxes receivables in the General Fund are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the current fiscal year end that are related to taxable years of prior periods. Income taxes receivable also include amounts owed by taxpayers on income earned prior to June 30, 2018, estimated to be collectible but not currently available, and thus are reported as deferred inflows of resources in the General Fund; such deferred inflows are considered revenue in the statement of activities as the availability criteria is not applicable on the government-wide financial statements for revenue recognition.

Act No. 44 of March 30, 2016 allowed citizens to prepay taxes on their individual retirements, educational savings accounts, annuities contracts and on the incremental value of property subject to capital gain. The income taxes collected in advance are recognized as unearned revenue in the governmental funds' balance sheet and will be recognized as revenue when the underlying transaction occurs.

The sales and use tax receivable are recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections during the 30 days following the current fiscal year end related to sales and use transactions due on or before year end. The same treatment is given in the government-wide financial statements.

Excise tax receivable is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections during the 30 days following the current fiscal year end related to transactions that occurred before year end. The same treatment is given in the government-wide

financial statements. Act No. 154-2010 imposed a temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations, and foreign partnerships. Act No. 154-2010 applies to income realized and acquisitions occurring after December 31, 2010. Initially, the excise tax would apply until the year 2017. The excise tax is based on the value of the personal property or the services acquired, and was 4% for calendar year 2011, 3.75% in 2012 and 2.75% for portions of 2013 until February 28, 2013. On February 28, 2013, Act No. 2 was enacted raising the then prevailing excise tax rate of 2.75% to 4%, effective immediately, and maintaining such rate fixed at 4% until the year 2017. On January 23, 2017, Act No. 3-2017 was enacted extending the fixed rate of 4% for ten additional years.

For purposes of the governmental fund financial statements, property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first 90 days of the following fiscal year reduced by tax refunds, if any. Additionally, the government-wide financial statements recognize real property tax revenue (net of refunds), which is not available to the governmental funds in the fiscal year for which the taxes are levied. Act No. 7-2009, as amended, imposed a real property tax, in addition to the one already established for the municipalities of the Commonwealth through the Municipal Revenue Collection Center (CRIM), on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax was applicable during fiscal years 2010 through 2012 and amounted to 0.591% of such properties' appraised value as determined by the CRIM. Act No. 1-2011 eliminated this additional real property tax commencing with the quarter ended June 30, 2011. Collections on this tax, which were due September 1, 2012 and March 1, 2013, were still being received during fiscal year 2018 as a result of delinquent taxpayers bringing their accounts current or taking advantages of amnesty programs offered by the DOT. The Commonwealth applies a 90-day availability period, rather than the traditional 60-day period after year end, in order to cover a period in which most tax extension payments are made. This has been applied consistently over the years.

Intergovernmental receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. This intergovernmental receivable is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections for one year following the fiscal year end related to transactions that occurred before year end. Those intergovernmental receivables not expected to be collected within the aforementioned one year period are recorded as deferred inflows of resources. In applying the susceptible to accrual concept to federal grants, revenue is recognized when all applicable eligibility requirements are met (typically, when related expenditures are incurred) and the resources are available. Resources received before eligibility requirements, other than timing, are met are considered unearned revenue. Resources received before timing requirements are met are considered deferred inflows of resources.

Intergovernmental receivables also include taxes that the CRIM is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM, pursuant to Act No. 83-1991. This receivable from CRIM is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections for 180 days following the current fiscal year end that are related to transactions that occurred before year end. The amounts from

CRIM not expected to be collected within the aforementioned 180 days period are recorded as deferred inflows of resources.

Unemployment, disability, driver's insurance, and other services receivables recognized in the proprietary funds are stated net of estimated allowances for uncollectible accounts.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the Primary Government and other component units that arise from service charges, are evaluated for collectability.

Loans of the General Fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the General Fund on their behalf.

The loans of the pension plans are presented net of estimated allowances for adjustments and losses in realization. However, most of the loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the Primary Government, other component units, and municipalities, and are presented net of allowances for uncollectible accounts. The remaining loans of the component units are to small and medium businesses, agricultural, and low-income- housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

(k) Inventories

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net position of Governmental Activities.

(l) Restricted Assets

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits and lending activities.

(m) Real Estate Held for Sale or Future Development

Real estate held for sale or future development is carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

(n) Capital Assets

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, and are reported in the applicable Governmental Activities, Business-type activities, and discretely presented component unit columns in the government-wide financial statements and in the proprietary fund financial statements. The Commonwealth's Primary Government defines capital assets as assets that (i) have an initial, individual cost of $25,000 or more at the date of acquisition and (ii) have a useful life of more than one year. Capital assets are recorded at historical cost or at estimated historical cost, if actual historical cost is not available.

Capital assets donated by third parties are recorded at fair value at the time of donation. Those capital assets donated by related parties are recorded at the carrying value existing at the transferor's records. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for Business-type activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and discretely presented component units' basic financial statements.

Capital assets of the Primary Government are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	Years
Buildings and building improvements	20–50
Equipment, furniture, fixtures, vehicles, and software	5–15
Infrastructure	50

The capital assets of the discretely presented component units are recorded in accordance with the applicable standards of the discretely presented component units and under their own individual capitalization thresholds, which includes capitalization of interest. Depreciation has been recorded when required by these standards based on the types of assets, use, and estimated useful lives of the respective assets, and on the nature of each of the discretely presented component unit's operations.

The estimated useful lives of capital assets reported by the discretely presented component units are as follows:

	Years
Buildings and building improvements	3–50
Equipment, furniture, fixtures, vehicles, and software	3–20
Intangibles, other than software	3–5
Infrastructure	10–50

In the case of capital assets under service concession arrangements pursuant to GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (mostly attributed to PRPA and PRHTA), these are maintained on their books and stated at cost or at estimated historical cost. Construction in progress made by the third-party operators under these service concession arrangements is not recorded by the aforementioned discretely presented component units while such construction is still in progress and not ready for use and operation; at which time such constructed assets and improvements will be recognized at their corresponding fair value. These capital assets are not being depreciated after the closing date of their respective service concession arrangements because such agreements require the third-party operators to return the related facilities to these discretely presented component units in its original or enhanced condition. Such capital assets continue to apply existing capital asset guidance, including depreciation through the closing date of the respective service

concession arrangements. Under these service concession arrangements, the aforementioned discretely presented component units have received from the third-party operator either an upfront compensation fee or capital assets (or the commitment to construct them under the agreement) or both. These resources, net of any contractual obligation from the discretely presented component units, are considered a deferred inflow of resources, which is recognized into revenue under the straight-line method over the term of the respective agreements.

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others. The Commonwealth evaluated its capital assets as required by GASB Statement No. 42 and identified impairments of approximately $135.2 million at the Primary Government level related to public schools identified for closure and to certain dwelling units identified for demolition during the year ended June 30, 2018. At the discretely presented component units level, PREPA, PRASA, PRHTA and UPR, major component units, identified impairments of approximately $855 million, $194 million, $2.8 million and $16.4 million, respectively. Also, the nonmajor component units identified impairments of approximately $32.6 million. The impairments recorded by the discretely presented component units, during June 30, 2018, are mostly from damages caused by hurricanes Irma and María.

(o) Income Tax Refunds Payable

During the calendar year, the Commonwealth collects individual and corporate income taxes through withholdings and payments from taxpayers. At June 30 of each year, the Commonwealth estimates the amount owed to taxpayers for overpayments of income taxes during the first half of the calendar year. These estimated amounts and the actual individual and corporate income tax refunds claimed for prior years but not paid at year-end are recorded as income tax refunds payable and as a reduction of tax revenue in both the Governmental Funds and the Governmental Activities.

(p) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government and the discretely presented component units have three major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) the accumulated decrease in the fair value of hedging derivatives and (iii) several items related to pensions and other postemployment benefits, the three of them reported in the government-wide statement of net position. A loss on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding losses can be found in Note 13. With respect to hedging derivatives, the accumulated losses on their fair values are also deferred and amortized as the underlying hedged instrument (in this case, debt) is being repaid or refunded and/or as the hedging derivative is terminated. Further information on the derivative instruments of the Primary Government

can be found in Note 21. Of the pension related items (further disclosed in Note 1 (s) and Note 18), changes in proportionate share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position and the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of caption arising under the modified accrual basis of accounting that qualify for reporting in this category, and that is unavailable revenue. Deferred inflows of resources at the governmental fund level arise when potential revenue does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. The Primary Government and the discretely presented component units also have two captions that qualify for reporting in this category in the government-wide statement of net position and those are the unamortized balance of gains on bond refunding and several items related to pensions and other postemployment benefits. A gain on a bond refunding results when the carrying value of refunded debt is less than its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding gains can be found in Note 13. Of the pension and other postemployment benefits related items (further disclosed in Note 1 (s) and Note 18), changes in proportionate share of contributions, differences between expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. The discretely presented component units also have one additional item that qualifies for reporting in this category in the government-wide statement of net position, which is the unamortized balances of the upfront amounts received and related adjustments pertaining to the Service Concession Arrangements of PRPA and PRHTA, further described in Note 17.

(q) Long-Term Debt

The liabilities reported in the government-wide financial statements include the Commonwealth's general obligation and revenue bonds and long-term notes, liabilities under guaranteed obligations, obligations under lease/purchase agreements, obligations for voluntary termination benefits, accrued compensated absences, long-term liabilities to other governmental entities, net pension liability, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types and discretely presented component units are recorded as liabilities in those funds and in the discretely presented component units' column.

In the government-wide financial statements, premiums and discounts on long-term debt and other long-term obligations are presented in the columns for Governmental and Business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts are deferred and amortized over the life of the debt using the effective interest method. Bonds and notes

payable are reported net of the applicable bond premium or discount. Bond issuance costs, other than prepaid insurance, are reported as expenses.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

(r) Derivative Instruments

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, except for synthetic guaranteed investment contracts that are fully benefit responsive, are reported at fair value in the government-wide financial statements. The changes in fair value of effective hedging derivative instruments are reported as deferred inflows or deferred outflows of resources. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedge able item. For additional information regarding hedging and investment derivative instruments, refer to Note 21.

(s) Accounting for Pension Costs

The Commonwealth accounts for pension costs under the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. GASB Statement No. 68 replaced GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, and requires that employers report a net pension liability and related pension accounts, such as pension expense and deferred outflows/inflows of resources as determined by the Retirement Systems, as applicable, under the requirements contained in GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The major fundamental change brought by GASB Statement No. 67, was switching from the then existing “funding based” accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the net pension obligation; to an “accrual basis” model, where the total pension obligation (actuarially determined) is compared to the plan net position and the difference represents the net pension liability. In essence, GASB Statement No. 68 brings the effect of GASB Statement No. 67 into the accounting records of the Primary Government and each of the component units and municipalities, whose employees participate in the Pension Plans.

The Primary Government of the Commonwealth, as well as its component units and the municipalities, are considered "cost sharing" employers of ERS; therefore, they report their allocated share of ERS's net pension liability and the related pension amounts taking in consideration the following, as of June 30, 2018 (measurement date June 30, 2017):

- The individual proportion to the collective net pension liability of all the government employer's participating.
- Each participating government employer's proportionate share was consistent with the manner in which contributions were determined and should reflect that participating government employer's projected long-term contribution effort relative to that of all the participating government employers. Contributions that separately financed specific liabilities of an individual participating government employer to ERS (such as a local participating government employer early retirement incentives) were not included in determining the proportionate share of the overall projected long-term contribution effort.
- The contributions that reflected each participating government employer's projected long-term contribution effort are the Act No. 116-2011 statutory payroll-based- contribution, the Act No. 3-2013 supplemental contribution, other special contributions, and the Act No. 32-2013 Additional Uniform Contribution (AUC). Other contributions that did not reflect a participating government employer's projected long-term contribution effort were excluded from the proportionate share calculation.
- The AUC, required a contribution that it is determined in the aggregate and ERS then allocated the total amount to each participating government employer based on such participating government employer's payroll. However, due to a history of non-payment of the AUC by many participating government employers and the expected continuing nonpayment of such contributions, it was determined that the collected AUC amounts would be excluded from the proportionate share determination, in order to prevent an overallocation of net pension liability amounts to those participating government employers who paid their AUC and an under allocation of net pension liability amounts to the participating government employers who did not pay their AUC.

TRS is a single employer pension plan for purposes of GASB Statement No. 68 reporting, as it covers those eligible participants who are teachers within the Commonwealth public education system and are employed by the DOE, which is a single government employer. Similarly, JRS is a single employer pension plan for purposes of GASB Statement No. 68 reporting, as it covers those eligible participants who are judges within the Commonwealth judiciary system and are employed by the Commonwealth's Court Administration Office.

Neither GASB Statements No. 68 nor No. 71 affect the way the Commonwealth may choose to fund its pension obligations.

(t) Other Postemployment Benefits

In addition to the pension benefits described in Note 18, the Commonwealth provides other retirement benefits, such as summer (for JRS retirees only) and Christmas bonus, and postemployment healthcare benefits (collectively referred to as other postemployment benefits or OPEB) for its retired employees in accordance with local law. Substantially, all the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. During fiscal year 2018 the Commonwealth adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* this statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring

liabilities, deferred outflow of resources, deferred inflow of resources and expenses. For additional information regarding OPEB, refer to Note 19.

The Christmas bonus and the summer bonus benefits are provided by Commonwealth statutes. The Christmas bonus and the summer bonus paid by the Commonwealth to the retired employees during the year ended June 30, 2018 was $600 per retiree, except for those retirees of the ERS, which had their summer bonus eliminated and the Christmas bonus reduced from $600 per retiree to $200 per retiree pursuant to Act No. 3-2013, which reformed ERS. The total amount of Christmas and summer bonus paid during fiscal year 2018 was approximately $28.9 million. These benefits are recorded as expenditures in the General Fund when paid.

Bonus for medicines is also provided to retirees by Commonwealth statutes. The total amount of this bonus paid during fiscal year 2018 was approximately $14.6 million. These benefits are recorded as expenditures in the General Fund when paid.

(u) Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 1.25 days per month up to an annual amount of 15 days, except for the teachers who accrue 4 days per month, up to an annual maximum of 40 days and policemen and firefighters who accrue 2.5 days per month. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and a maximum accumulation of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rates regardless of years of service. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method (except for Puerto Rico Police Bureau employees), in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes payroll related costs (e.g., social security and Medicare tax). The liability for compensated absences of Puerto Rico Police Bureau (PRPOB) employees is estimated based on actual termination payments made and projected statistically, which is a hybrid between the vesting and termination methods. The governmental fund financial statements record expenditures when employees are paid for leave, or when the balance due is accrued upon the employee's separation from employment. Compensated absences accumulation policies for blended and discretely presented component units varies by entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

(v) Termination Benefits

The Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

(w) Interfund Activities and Intraentity Transactions

The Commonwealth had the following interfund activities and intraentity transactions:

Interfund Transfer – Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements. Interfund receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

Intraentity Transactions – There are two types of intraentity transactions: First, the flow of resources between the Primary Government and its discretely presented component units, and among the discretely presented component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the Primary Government and blended component units are classified as interfund activity, as described above. Second, the intraentity balances between the Primary Government and discretely presented component units which are equivalent to long-term debt financing. The Primary Government's liability is reported in the statement of net position, the proceeds in the Primary Government's statement of revenue, expenditures and changes in fund balance governmental funds, and the asset in the discretely presented component units' statement of net position. Amounts due from discretely presented component units are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

(x) Lottery Revenue and Prizes

The revenue, expenses, and prizes awarded by the Traditional Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as unearned revenue. Unpaid prizes awarded as of June 30, are reported as obligation for unpaid lottery prices. Unclaimed prizes expire after six months and are transferred to the General Fund.

(y) Risk Management

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the Primary Government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC, which provides workers' compensation to both public and private employees. The Commonwealth's blended component units are responsible for assuring that its property is properly insured. Annually, these blended component units compile the information of all property owned and its respective replacement value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2018 remained similar to those of prior years. In the last three years, the Commonwealth's or the component units' insurance settlements have not exceeded the amount of coverage.

Certain discretely presented and blended component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations. The most significant self-insurance funds reside at the discretely presented component unit's level and are described in detail in Note 16.

(z) Tobacco Settlement

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues*, (the TB), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, generally referred to as Tobacco Settlement Authority (in the Commonwealth's case, the Children's Trust), should be considered a blended component unit of the government that created it. The TB also states that the government receiving the payments from the tobacco companies under the agreement, referred to as settling governments, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government and tobacco settlement authorities for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

(aa) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(bb) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2017:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plan*, for OPEB. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Footnote disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. For further information on the impact of adopting this statement on the financial statements see Note 4.
- GASB Statement No. 81, *Irrevocable Split Interest Agreements*. This statement improves accounting and financial reporting for irrevocable split interest agreements by providing recognition and

measurement guidance for situations in which a government is a beneficiary of the agreement. This statement requires that a government that receives resources pursuant to an irrevocable split interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. This statement did not have an impact on the basic financial statements.

- GASB Statement No. 82, *Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73*. This statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this statement addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, as well as ratios that use that measure. This statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This statement clarifies that payments made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). This statement was effective in fiscal year 2017, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement did not have an impact on the basic financial statements.
- GASB Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this statement addresses the following topics:
  - Blending a component unit in circumstances in which the Primary Government is a Business-type activity that reports in a single column for financial statement presentation.
  - Reporting amounts previously reported as goodwill and "negative" goodwill.
  - Classifying real estate held by insurance entities.

- Measuring certain money market investments and participating interest earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple employer defined benefit OPEB plans.

This statement did not have an impact on the basic financial statements.

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This statement improves the consistency in accounting and financial reporting for in substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and disclosures for debt that is defeased in substance. This statement did not have an impact on the basic financial statements.

(cc)Accounting Pronouncements Issued But Not Yet Effective

The following new accounting standards have been issued but are not yet effective:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity

meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a Business-type activity that normally expects to hold custodial assets for three months or less. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

- GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease assets, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period

should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

- GASB Statement No. 90, *Majority Equity Interest*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 91, *Conduit Debt Obligations.* This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.
- GASB Statement No. 92, *Omnibus 2020*. This Statement addresses a variety of topics and includes specific provisions about the following, the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended*, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The portion of this Statement that relates to the effective date of Statement

87 and its associated implementation guidance are effective upon issuance. Provisions related to intra-entity transfers of assets and applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020. The remaining requirements related to asset retirement obligations are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. Earlier application is encouraged and is permitted by topic.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates.* The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction. This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases,* as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 95, *Postponements of Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

  The effective dates of certain provisions contained in the following pronouncements are postponed by one year after the original implementation date:

  - GASSB Statement No. 83, *Certain Asset Retirement Obligations*
  - GASB Statement No. 84, *Fiduciary Activities*

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests*
- GASB Statement No. 91, *Conduit Debt Obligations*
- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
- GASB Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- GASB Implementation *Guide No. 2018-1, Implementation Guidance Update—2018*
- GASB Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- GASB Implementation Guide No. 2019-2, *Fiduciary Activities.*

The effective dates of the following pronouncements are postponed by 18 months after the original implementation date:

- GASB Statement No. 87, *Leases*
- GASB Implementation Guide No. 2019-3, *Leases*.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 96, *Subscription Based Information Technology Arrangements.* The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate cost associated with the reporting of certain defined contribution pension plans other than pension plans or OPEB plans (other employee benefits plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section

457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Sections 457 plans are effective for fiscal years beginning after June 15, 2021.

Management is evaluating the impact that these statements may have on the Commonwealth basic financial statements upon adoption.

(2) Going Concern, Uncertainties and Liquidity Risk

The risks and uncertainties facing the Commonwealth, together with other factors, have led management to conclude that there is substantial doubt as to the ability of the Commonwealth to continue as a going concern.

(a) Going Concern – Primary Government

Management believes that there is substantial doubt about the Commonwealth's ability to continue as a going concern for the following reasons:

- The Commonwealth is facing a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that has persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base has shrunk and its revenues been affected by prevailing economic conditions, an increasing portion of the Commonwealth's General Fund budget has consisted of health care and pension related costs and debt service requirements through fiscal year 2018, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.
- In response to the Commonwealth's current fiscal crisis, the United States Congress enacted PROMESA establishing the Oversight Board. On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation.
- Since June 30, 2014, the principal rating agencies lowered their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D." They also lowered similarly to a default grade their ratings on PBA's bonds and GDB's then-existing bonds, while the ratings on the then-existing COFINA bonds were lowered multiple notches to a non-investment grade level of Ca, CC and D (depending on the particular rating agency). After the conclusion of the fiscal year ended June 30, 2018, the GDB bonds were exchanged for new bonds issued by the GDB Debt Recovery Authority pursuant to GDB's Qualifying Modification under Title VI of PROMESA, which became effective on November 29, 2018. For additional information regarding GDB's Qualifying Modification, refer to Note 3, Note 17(c), and GDB's standalone audited financial statements for its fiscal year ended June 30, 2018. Similarly, the COFINA bonds were exchanged for new bonds as a result of the COFINA Plan of Adjustment, which become effective on February 12, 2019. For additional information regarding the COFINA Plan of Adjustment, refer to

Note 3, Note 17(c), and COFINA's standalone audited financial statements for its fiscal year ended June 30, 2018.

- The Primary Government reflects a net deficit of approximately $72.8 billion as of June 30, 2018. The Commonwealth's General Fund shows a fund balance of approximately $1.4 billion as of June 30, 2018.
- For fiscal years ended June 30, 2018, the Legislature did not appropriate approximately $85.8 million, for the debt service payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.
- On April 6, 2016, the Moratorium Act was enacted, under which the Commonwealth and certain of its component units suspended their respective debt service payments. In particular, the Commonwealth suspended the payment of approximately $1.1 billion in debt service on general obligation bonds due during the fiscal year ended June 30, 2018, and $2.3 billion since its enactment. For additional information regarding the Moratorium Act and other relevant legislation, refer to Note 3.
- Effective July 1, 2017, Act No. 106–2017 required the elimination of the pension trusts that were used to accumulate assets for the payment of pension benefits of ERS, TRS and JRS (collectively referred to as the Retirement Systems). Subsequently, a new pay-as-you-go (PayGo) mechanism was established for the payment of accumulated pension benefits. Additionally, on May 22, 2017 the Oversight Board, commenced a Title III case for ERS by filing a petition for relief under PROMESA in the United States District Court for the District of Puerto Rico.

Remediation Plan – Primary Government

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On April 23, 2021, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

(i) Human Capital and Welfare Reform

(ii) K-12 Education Reform

(iii) Ease of Doing Business Reform

(iv) Power Sector Reform

(v) Infrastructure and Capital Investment Reform

(vi) Establishment of the Office of the CFO

(vii) Agency Efficiency Measures

(viii) Medicaid Reform

(ix) Enhanced Tax Compliance and Optimized Taxes and Fees

(x) Reduction in UPR and Municipality Appropriations

(xi) Comprehensive Pension Reform

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve

a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

On May 11, 2021, the Oversight Board—as representative to the Commonwealth, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), and the Puerto Rico Public Buildings Authority (PBA) in their respective Title III cases—filed its *Third Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 16740) (the Third Amended Plan) and an amended disclosure statement related thereto [ECF No. 16741] (the Third Amended Disclosure Statement). The Third Amended Plan remains subject to future amendments and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm any such plan.

(b) Going Concern – Discretely Presented Component Units

The following major discretely presented component units have been identified as having substantial doubt about their ability to continue as a going concern. Each major discretely presented component units' circumstances and remediation plan are described below:

(i) GDB

The stand-alone audited basic financial statements of GDB disclose that there is substantial doubt about GDB's ability to continue as a going concern for the following reasons:

- GDB, traditionally served as interim lender to the Commonwealth, its component units, and municipalities in anticipation of the issuance of long-term- bonds and notes by such entities in the municipal bond market. GDB also provided financing to the Commonwealth and its component units to finance their respective budget deficits, collateral requirements under swap agreements, and to meet mandatory payments of obligations. As a result, GDB's liquidity and financial condition depended to a large extent on the repayment of loans made to the Commonwealth and its component units. Conditions that adversely affect the ability of the Commonwealth and its component units to raise cash (including limited access to capital markets) and repay their interim and other loans to GDB had an adverse effect on GDB's liquidity and financial condition.
- Under the Moratorium Act (as amended by Act No. 2-2017), FAFAA was created, as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities.

Remediation Plan – GDB

Upon the establishment of FAFAA, GDB's role was reduced to acting as an agent in (i) collecting on its loan portfolio and (ii) disbursing funds pursuant to strict priority guidelines. Given its reduced operations no appropriations were assigned for fiscal year 2018, and no further appropriations are expected to be assigned going forward. On March 23, 2018, GDB ceased its operations. Thereafter, management initiated an orderly wind down process, which included a restructuring of GDB's debts pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Details of the Qualifying Modification are further discussed in Notes 3 and 17.

For additional information about GDB's cessation of operations and implementation of the Qualifying Modification, refer to the notes of GDB's 2018 stand-alone audited basic financial statements.

(ii) PRHTA

The stand-alone audited basic financial statements of PRHTA disclose that there is substantial doubt about PRHTA's ability to continue as a going concern for the following reasons:

- PRHTA has experienced significant recurring losses from operations and faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that PRHTA has not increased its revenues to cover its rising costs.
- PRHTA does not have sufficient funds available to repay its various obligations as they come due or those that are currently in default. PRHTA has not been able to increase its revenues, reduce its costs and improve liquidity. During the fiscal year ended June 30, 2018, PRHTA incurred a loss before capital grants and transfers of approximately $482 million. As of June 30 2018, PRHTA's current liabilities exceed its current assets by approximately $2.8 billion, and had an accumulated deficit of approximately $1.3 billion.
- Additionally, significant support and funding for obligations of PRHTA has previously been provided by the Commonwealth and its component units, including GDB. The Commonwealth and such entities are experiencing financial difficulties and are unable to continue to extend, refinance or otherwise provide the necessary liquidity to PRHTA as and when needed. As such, current defaults may not be cured and future defaults on PRHTA's obligations may not be avoided. The total aggregate outstanding balance of lines of credit was approximately $1.9 billion as of June 30, 2018. These lines of credit expired in January 2016 and are currently in default.
- On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PRHTA by filing a petition for relief under Title III of PROMESA in the Title III Court. PRHTA is currently operating under the protection of the Title III Court.

Remediation Plan – PRHTA

On May 27, 2021, the Oversight Board approved a fiscal plan to provide a roadmap for transforming not only PRHTA, but also infrastructure across Puerto Rico to catalyze economic growth. PRHTA has four objectives aligned with this goal: (a) promote the safe and easy movement of vehicles and individuals, (b) reach and maintain a state of good repair to ensure the people of Puerto Rico have access to quality roads and modes of transportation, (c) contribute to the development of Puerto Rico, and (d) build a strong, resilient road network by strengthening assets that are prone to natural disasters.

There is no certainty that any certified fiscal plan for PRHTA will be fully implemented, or if implemented will ultimately provide the intended results.

Detailed information about PRHTA's conditions and events that raise doubt about its ability to continue as a going concern and its corresponding remediation plan are disclosed in the notes of PRHTA's 2018 fiscal year stand-alone audited basic financial statements.

(iii) PREPA

Management believes that there is substantial doubt about PREPA's ability to continue as a going concern for the following reasons:

- PREPA has defaulted on various debt obligations and does not currently have sufficient funds available to repay its obligations as they come due.
- The Commonwealth and its component units are also experiencing financial difficulties and have been unable to repay amounts due to PREPA.

- PREPA has an accumulated deficit of approximately $6.8 billion as of June 30, 2018, and during the year ended June 30, 2018, the deficit increased by approximately $1.5 billion.
- On July 2, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the Title III Court. PREPA is currently operating under the protection of the Title III Court.
- In recent years, Puerto Rico's infrastructure systems have experienced devastating damage in the wake of several natural disasters. In September 2017, Puerto Rico was directly impacted by Hurricanes Irma and Maria, leaving in its path the destruction of thousands of homes, knocking out power across the entire island, and flooding many streets and roads. In January 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing an island-wide power outage, water shortages, and the collapse of many buildings and homes. Puerto Rico has continued to experience subsequent aftershocks that are not expected to stop any time soon. The total economic damage from these natural disasters is estimated in the tens of billions of dollars.

Remediation Plan – PREPA

On May 27, 2021, the Oversight Board approved a new fiscal plan that lays out a path for the operational and financial reorganization of PREPA and the transformation of Puerto Rico's energy system.

There is no certainty that any certified fiscal plan for PREPA will be fully implemented, or if implemented will ultimately provide the intended results.

Detailed information about PREPA's conditions and events that raise doubt about its ability to continue as a going concern and its corresponding remediation plan are disclosed in the notes of PREPA's 2018 fiscal year stand-alone audited basic financial statements.

(iv) UPR

The stand-alone audited basic financial statements of UPR disclose that there is substantial doubt about its ability to continue as a going concern for the following reasons:

- UPR had an accumulated deficit position of approximately $1.9 billion at June 30, 2018.
- UPR has had recurring operating losses, has been highly dependent on the Commonwealth's appropriations to finance its operations, and has historically relied on GDB for liquidity. Approximately 64% of UPR's total revenues were derived from Commonwealth appropriations for the year ended June 30, 2018. UPR's ability to continue receiving similar operational support from the Commonwealth and obtaining external financing is uncertain.
- UPR has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition.
- On June 29, 2017, UPR and the trustee for the UPR System Revenue Bonds entered into a standstill agreement (the Standstill Agreement), pursuant to which the UPR agreed to transfer to a segregated account, for the benefit of the holders of the revenue bonds, certain amounts in respect of revenue pledged on the condition that during the covered period of the Standstill Agreement the trustee would not institute, commence, or continue any legal proceeding against the UPR, the Commonwealth or any of its agencies, instrumentalities, or municipalities thereof, to enforce rights related to the revenue bonds. The Standstill Agreement has been subject to various extensions.

Remediation Plan – UPR

On May 27, 2021 the Oversight Board certified a new version of the UPR fiscal plan.

There is no certainty that any certified fiscal plan for UPR will be fully implemented, or if implemented will ultimately provide the intended results.

Detailed information about UPR's conditions and events that raise doubt about its ability to continue as a going concern and its corresponding remediation plan are disclosed in the notes of UPR's 2018 fiscal year stand-alone audited basic financial statements.

(v) Other Nonmajor Discretely Presented Component Units

There are other nonmajor discretely presented component units that have accumulated deficits and others that even without deficits, have outstanding debt payable to GDB or subject to the Moratorium Act and related executive orders. Similar, to the reasons presented above for the Commonwealth's Primary Government and its major discretely presented component units, there is uncertainty as to the ability of other nonmajor discretely presented component units to satisfy their obligations as they become due; therefore, raising substantial doubt about their ability to continue as a going concern.

Additionally, there are other nonmajor discretely presented component units that do not have a deficit position or loans outstanding with GDB as of June 30, 2018, and have not been impacted by the Moratorium Act and related executive orders. However, these entities are highly dependent on the financial support provided by the Commonwealth and have been depending on GDB as their only option to obtain financing to fund their operations. The financial support provided by the Commonwealth is contingent on inclusion of such entities in its General Fund's budget appropriations as approved by the Legislature. Any reduction in the amount of these contributions could result in financial difficulties for these entities, including the uncertainty as to their ability to satisfy their obligations as they become due, thereby raising substantial doubts about their ability to continue as a going concern.

(3) PROMESA and Other Legislation Related to Debt Restructuring

As discussed in Note 2, the Commonwealth and many of its component units are in the midst of an economic and fiscal crisis, which have caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address these problems. During the fiscal years subsequent to June 30, 2016, the Commonwealth and other governmental entities such as COFINA, PRHTA, ERS, PREPA, PBA and GDB have initiated PROMESA proceedings at the request of the Governor to restructure or adjust their existing debt. Following are the most relevant Commonwealth and federal legislation enacted to address the fiscal crisis and to initiate the economic recovery:

(a) Fiscal Measures Before PROMESA

(i) Retention by the Government of Tax Revenues Conditionally Allocated to Certain Public Corporations and Priority of Payment Provisions

On December 1, 2015, the Governor signed Executive Order No. 46 (Executive Order No. 46). Executive Order No. 46 ordered the Secretary of DOT to retain certain available resources of the Commonwealth in light of revised revenue estimates for fiscal year 2016 and the Commonwealth's deteriorating liquidity situation. Pursuant to such executive order, the Secretary of the DOT retained revenues conditionally allocated to PRHTA, PRIFA, PRCCDA, and PRMBA for the payment of debt service on their bonds during fiscal year 2016. Since fiscal year 2017, such revenues are being

retained by the Commonwealth pursuant to certain laws, including but not limited to (a) the Moratorium Act and Act No. 5-2017 (discussed below), and (b) the automatic stay under Title III of PROMESA. Use of these revenues is the subject of ongoing litigation, as discussed in Note 17.

(ii) Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Financial Emergency and Fiscal Responsibility of Puerto Rico Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted the Moratorium Act. Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities. Pursuant to these executive orders, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB.

The implementation of the Moratorium Act and its related executive orders is the subject of ongoing litigation, as discussed in Note 17. Upon the enactment of PROMESA on June 30, 2016, the Title IV Stay (discussed below) applied to stay this litigation until the Title IV Stay expired on May 1, 2017. Since the commencement of the Commonwealth's Title III case on May 3, 2017, the automatic stay under Title III of PROMESA has applied to continue the stay of this litigation and prevent debt service payments to bondholders.

(b) PROMESA and Other Puerto Rico Legislation

(i) PROMESA

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

(a) Title I – Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute,

resolution, policy, or rule that would impair or defeat the purposes of [PROMESA], as determined by the Oversight Board."

(b) *Title II – Fiscal Plan and Budget Certification Process and Compliance*

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets."

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

(c) Title III – In-Court Restructuring Process

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA, subject to the prerequisites therein.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation.

(d) Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017 of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for

borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017 regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017 a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two-years. The GAO published its initial report on October 2, 2017. On June 28, 2019, the GAO published its latest biannual report on the public debt of the U.S. territories.

(e) Title V – Infrastructure Revitalization

Title V of PROMESA establishes the position of Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for "critical projects" as identified by the Revitalization Coordinator.

(f) Title VI – Consensual, Out-of-Court Debt Modification Process

Title VI of PROMESA establishes an out-of-court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish "pools" of bonds issued by each Puerto Rico government -related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

Finally, the United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds.

The Title VI process was successfully implemented to restructure the debts of the GDB. The GDB Title VI process is discussed below under Discretely Presented Component Units – GDB, Qualifying Modification and Title VI Approval Process.

(g) Title VII – Sense of Congress

Title VII of PROMESA sets forth the sense of Congress that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that

feature, among other elements, a free flow of capital between territories of the United States and the rest of the United States."

(ii) Puerto Rico Legislation and Other Fiscal Measures

Act No. 2-2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority Act, was enacted to expand FAFAA's powers and authority (as initially established under the Moratorium Act) so that FAFAA has the sole responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity. FAFAA is also responsible for the collaboration, communication, and cooperation efforts between the Commonwealth and the Oversight Board under PROMESA. In addition, Act No. 2-2017 established FAFAA as the Commonwealth entity responsible for carrying out the roles inherited from the GDB along with additional duties and powers, which include, among other things: (i) oversight of the Commonwealth budget; (ii) an administrative presence on every board or committee where the GDB president is currently a member; (iii) authority to conduct audits and investigations; and (iv) authority to freeze budgetary items, appoint trustees, redistribute human resources, and change procedures.

Act No. 3-2017, the Fiscal Crisis Management Act, was enacted to extend most of the fiscal measures that had been adopted under Act No. 66-2014 through July 1, 2021, including a 10-year extension of the excise tax on acquisitions by foreign corporations under Act No. 154-2010.

Act No. 5-2017, the Puerto Rico Fiscal Responsibility and Financial Emergency Act, authorized the Commonwealth to segregate funds that would eventually be used to fund the payment of public debt. Act No. 5-2017 states that the Governor may pay debt service as long as the Commonwealth is able to continue to fund essential services, such as the health, safety, and well-being of the people of Puerto Rico, including providing for their education and assistance to residents. Act No. 5-2017 continued to declare the Commonwealth to be in a state of emergency and increased the Governor's powers to manage the Commonwealth's finances. The emergency period under Act No. 5-2017 was set to expire on May 1, 2017 to coincide with the expiration of the Title IV Stay (as discussed above), unless extended by an additional three months by executive order. On April 30, 2017, the Governor issued executive order OE-2017-031, which extended the Act No. 5-2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46-2017, which further extended the Act No. 5-2017 emergency period through December 31, 2017. Act No. 46-2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long as the Oversight Board remains established for Puerto Rico under PROMESA. On June 27, 2019, the Governor issued executive order EO-2019-030 extending the emergency period until December 31, 2019. On December 31, 2019, the Governor issued executive order EO-2019-066 extending the emergency period until June 30, 2020. On June 30, 2020, the Governor issued executive order EO-2020-050 extending the emergency period until December 31, 2020. On December 17, 2020, the Governor issued executive order EO-2020-092 extending the emergency period until June 30, 2021.

Act No. 106-2017, the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants, reformed the Commonwealth's pensions by replacing the governing boards of the Retirement Systems with a single Retirement Board of the Commonwealth of Puerto Rico (Retirement Board) and established a separate "Account for the Payment of Accrued Pensions" to implement a PayGo method by which the Commonwealth will pay pension benefits to government retirees on a pay-as-you-go basis. Act No. 106-2017 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system.

Act No. 109-2017, the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB RSA), effectuated the GDB Fiscal Plan and provided a path for the implementation of the GDB RSA by addressing the claims of the Commonwealth and its instrumentalities against GDB. Act No. 109-2017 created two special purpose entities—the GDB Debt Recovery Authority and the Public Entity Trust—into which the GDB would divide and irrevocably transfer its assets. As discussed below, these entities were utilized to complete the transactions in the GDB's Qualifying Modification, as approved by the District Court under Title VI of PROMESA.

Act No. 241-2018, the Puerto Rico Sales Tax Financing Corporation Act, amended and restated Act No. 91-2006 to establish the legal framework for the restructuring of COFINA's issued and outstanding bonds by, among other things, authorizing the issuance of new COFINA bonds necessary to complete the transactions contemplated under the COFINA Plan of Adjustment, as discussed below and in Note 17(c).

Act No. 29-2019, the Act for the Reduction of Administrative Burdens of the Municipalities, addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligations to make PayGo payments to the Commonwealth and other payments to the PRHIA under Act No. 106-2017. The Oversight Board challenged the implementation and enforcement of Act No. 29-2019, as discussed below in Note 17(c). On April 15, 2020, the Title III Court entered an order finding that Act No. 29-2019 is unenforceable and permanently enjoining the Commonwealth from implementing it and enforcing it effective May 6, 2020. The Oversight Board and other governmental entities have implemented other measures to address the issues raised in Act No. 29-2019.

(c) PROMESA Title III Cases

(i) Commonwealth Title III Case

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in Title III Court. The deadline by which all creditors were required to file their proofs of claim against the Commonwealth was June 29, 2018. Approximately 116,160 claims were filed against the Commonwealth in the total aggregate asserted amount of approximately $33.2 trillion. Of this amount, approximately 82,860 claims in the total aggregate asserted amount of approximately $33.1 trillion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 12,395 claims in the total aggregate asserted amount of approximately $139.4 billion remain outstanding. The validity of these remaining claims have not yet been determined and such claims remain subject to the claims reconciliation process described in section (vii) below.

On May 11, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed the Third Amended Plan [ECF No. 16740) and the Third Amended Disclosure Statement [ECF No. 16741]. A hearing on the adequacy of the Third Amended Disclosure Statement is currently scheduled for July 13, 2021.

The Government has not yet determined whether it will support the Third Amended Plan given its view that government pensioners must be protected and must not receive additional cuts to their pension benefits. The Third Amended Plan remains subject to future amendments and Title III Court approval. It is not certain that the Title III Court will ultimately confirm the Third Amended Plan or any further amended plan.

For additional information, refer to the publicly available Third Amended Plan and Third Amended Disclosure Statement, available at https://cases.primeclerk.com/puertorico/ Home-DocketInfo.

(ii) COFINA Title III Case

On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against COFINA was June 29, 2018. These claims against COFINA were resolved through the COFINA Plan of Adjustment, which became effective on February 12, 2019. For additional information regarding the COFINA Plan of Adjustment, refer to Note 17(c) and the COFINA stand-alone audited basic financial statements.

Certain parties whose objections were overruled in confirming the COFINA Plan of Adjustment filed Notices of Appeal in the Title III Court. The appeals were docketed with the United States Court of Appeals for the First Circuit under case numbers 19-1181 (also discussed in relation to the adversary proceeding captioned *Manuel Natal-Albelo, et al. v. Financial Oversight and Management Board for Puerto Rico, et al.*) and 19-1182, 19-1391, and 19-1960. On February 8, 2021, the First Circuit denied the appeals and affirmed the Title III Court's confirmation of the COFINA Plan of Adjustment and Settlement Agreement.

(iii) PRHTA Title III Case

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for PRHTA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against PRHTA was June 29, 2018. Approximately 2,260 claims were filed against PRHTA in the total aggregate asserted amount of approximately $83.1 billion. Of this amount, approximately 1,235 claims in the total aggregate asserted amount of approximately $6.8 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 920 claims in the total aggregate asserted amount of approximately $76.2 billion remain outstanding. The validity of these remaining claims have not yet been determined and such claims remain subject to the claims reconciliation process, described in section (vii) below.

On April 12, 2021, the Oversight Board announced the Clawback Agreement with the Settling Monoline Insurers to settle certain claims against the Commonwealth regarding the bonds issued by PRHTA and PRCCDA, as well as claims against those issuers. The terms of the Clawback Agreement have been incorporated into the Third Amended Plan for the Commonwealth, ERS, and PBA. The Clawback Agreement also provides that PRHTA shall endeavor to file its own plan of adjustment by January 31, 2022—consistent with the economic provisions under the Clawback Agreement—that would enable PRHTA to exit its Title III proceeding by the end of calendar year 2022.

After the commencement of PRHTA's Title III case, numerous motions and adversary proceedings were filed both by and against PRHTA regarding creditor rights to PRHTA assets. The outcome of these proceedings and their impact on any plan of adjustment for PRHTA cannot be determined at this time.

(iv) ERS Title III Case

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for ERS by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against ERS was June 29, 2018. Approximately 53,020 claims have been filed against ERS in the total aggregate asserted amount of approximately $10.2 trillion. Of this amount, approximately 40,445 claims in the total aggregate asserted amount of approximately $10.1 trillion have been

withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 995 claims in the total aggregate asserted amount of approximately $65.2 billion remain outstanding. The validity of these remaining claims have not yet been determined and such claims remain subject to the claims reconciliation process, described in section (vii) below.

On March 12, 2019, the Creditors' Committee filed an omnibus objection to all claims asserted against ERS based on the approximately $3.1 billion of outstanding bonds issued by ERS in 2008 (the Creditors' Committee ERS Bond Claims Objection). The Creditors' Committee ERS Bond Claims Objection argues that ERS was only authorized to issue a "direct placement of debts," which the Creditors' Committee claims is commonly understood to mean a "private placement, not a public offering." Because the ERS bonds were issued in a public offering, the Creditors' Committee asserts that the ERS bonds were illegally issued as *ultra vires* and are thus "null and void." As a result, the Creditors' Committee seeks an order disallowing all ERS bond claims in their entirety.

After years of litigation, on April 2, 2021, the Oversight Board and certain ERS bondholders entered into the ERS Stipulation. As agreed in the ERS Stipulation, the Oversight Board filed a motion on April 5, 2021 seeking a stay of various ERS-related litigation (including the ERS Bond Claims Objections) pending the adjudication of the plan of adjustment for the Commonwealth, ERS, and PBA. On April 12, 2021, the Title III Court granted the motion and stayed the ERS Bond Claims Objections until further notice.

On March 8, 2021, the Oversight Board—as representative to the Commonwealth, ERS and PBA in their respective Title III cases—filed its Second Amended Plan and Second Amended Disclosure Statement, which incorporates the terms of the 2021 PSA and the Retiree Committee RSA with modifications increasing the threshold level for pension cuts from $1,200 to $1,500 of monthly retirement benefits per retiree, among other things.

On April 2, 2021, the Oversight Board and ERS bondholders announced their entry the ERS Stipulation, which sets forth an agreement on the economic terms upon which the ERS bondholders would support a plan of adjustment. On May 11, 2021, the Oversight Board—as representative of the Commonwealth, ERS and PBA in their respective Title III cases—filed the Third Amended Plan and Third Amended Disclosure Statement. The Third Amended Plan remains subject to future amendments and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm any such plan.

For further information, refer to the currently filed versions of the Third Amended Plan and Third Amended Disclosure Statement, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

(v) PREPA Title III Case

On July 3, 2017, at the request of the Governor, the Oversight Board commenced a Title III case for PREPA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against PREPA was June 29, 2018. Approximately 4,490 claims have been filed against PREPA in the total aggregate asserted amount of approximately $25.3 billion. The validity of these asserted claims have not yet been determined and all claims remain subject to the claims reconciliation process, described in section (vii) below.

On August 18, 2020, the Creditors' Committee filed a motion to terminate the 9019 Motion, which the Oversight Board, FAFAA, and PREPA objected to. On November 4, 2020, the Title III Court denied the Committee's motion to terminate the 9019 Motion, without prejudice to renewal after April 21, 2021. The Committee has appealed the Title III Court's decision to the First Circuit (Case No.

20-2162). On February 2, 2021, the First Circuit entered an order directing the Creditors' Committee to show cause why the appeal should not be dismissed for lack of jurisdiction. The Committee filed its response to the Court's order on February 16, 2021, and, in light of such response, on May 21, 2021, the First Circuit dismissed the matter for lack of subject matter jurisdiction.

(vi) PBA Title III Case

On September 27, 2019, the Oversight Board, at the request of the Governor, commenced a Title III case for PBA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against PBA was June 26, 2020. As of June 26, 2021, approximately 390 claims have been filed against PBA in the total aggregate asserted amount of approximately $6.8 billion.

On May 11, 2021, the Oversight Board—as representative of the Commonwealth, ERS and PBA in their respective Title III cases—filed the Third Amended Plan for the Commonwealth, ERS, and PBA, along with a Third Amended Disclosure Statement related thereto. The Third Amended Plan remains subject to future amendments and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm any such plan.

For further information, refer to the currently filed versions of the Third Amended Plan and Third Amended Disclosure Statement, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

(vii) Claims Reconciliation Process for Title III Cases

As of June 26, 2021, approximately 176,325 proofs of claim have been filed in the Title III Cases in the total aggregate asserted amount of approximately $43.5 trillion. Of this amount, approximately 101,020 claims in the total aggregate asserted amount of approximately $43.3 trillion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court, and 23,001 claims have been resolved via the ACR process. As a result, approximately 18,300 claims in the total aggregate asserted amount of approximately $306 billion remain outstanding against all Title III debtors.

On October 16, 2018, the Oversight Board filed a motion seeking the approval of certain limited claim objection procedures designed to complete the claims reconciliation process in a timely, efficient, and cost-effective manner. In its motion, the Oversight Board sought authority, among other things, to file omnibus objections to claims on the non-substantive bases expressly set forth in Bankruptcy Rule 3007(d)(1)-(7), which include objections to duplicative or untimely filed claims, with the limitation that each omnibus objection may only object to up to 500 claims (the Initial Claim Objection Procedures). On November 14, 2018, the Title III Court entered an order approving the Initial Claim Objection Procedures. On May 21, 2019, the Oversight Board filed a motion seeking to amend the Initial Claim Objection Procedures by permitting omnibus objections to be filed on substantive as well as non-substantive bases, and to permit up to 1,000 claims to be included in each omnibus objection (the Amended Claim Objection Procedures). On June 14, 2019, the Title III Court entered an order approving the Amended Claim Objection Procedures.

On June 5, 2019, the Oversight Board filed a motion for the Title III Court to authorize alternative dispute resolution (ADR) procedures to resolve certain general unsecured claims. At the omnibus hearing held on July 24, 2019, the Title III Court indicated that it supported an ADR process, but that the proposed ADR procedures included a number of practical barriers to implementation, including a lack of detail on what types of claims would be subject to the ADR procedures, and failure of proposed ADR procedures to comply with federal rules and due process requirements. On January 7, 2020, the Oversight Board submitted an amended motion to approve ADR procedures

(the ADR Procedures), which the Title III Court approved on April 1, 2020. The Commonwealth and Oversight Board are currently in the process of reviewing claims to be resolved through the ADR Procedures.

After the commencement of the Commonwealth's Title III case, numerous motions and adversary proceedings have been filed both by and against the Commonwealth regarding creditor rights to Commonwealth assets. At this time, there is significant uncertainty regarding what recovery, if any, creditors will receive on account of claims against the Commonwealth under Title III of PROMESA. The recovery, if any, will be determined in the Commonwealth Title III case and cannot be estimated at this time. Generally, unless otherwise provided in the plan of adjustment or ordered by the District Court, the recovery a creditor receives on account of its claim in the Commonwealth Title III case will be in full satisfaction of such claim and such claim will otherwise be released and discharged by the terms of the plan of adjustment. Once discharged, the Commonwealth will have no further liability or obligation related to such claim except to the extent set forth in the approved plan of adjustment or otherwise ordered by the District Court. For a detailed description of these legal contingencies, refer to Note 17.

(viii) GDB Qualifying Modification and Title VI Approval Process

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the GDB DRA)—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The assets of the PET (the PET Assets) consist of among other items, an unsecured claim against the Commonwealth of approximately $578 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Official Committee of Unsecured Creditors appointed in the Title III cases has objected to this PET Claim and, as of the date hereof, the Title III Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. The Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification and the GDB Restructuring Act (except for as set forth therein).

On November 6, 2018, the District Court approved GDB's Qualifying Modification under Title VI of PROMESA and the Qualifying Modification became effective as of November 29, 2018.

(ix) PRIFA-Ports Exchange

On December 27, 2019, PRIFA completed a private exchange that resulted in the resolution of over 92% of those certain Series 2011 bonds issued by PRIFA (Ports Authority Project) (the PRIFA-Ports Bonds). At the time of the exchange, the PRIFA-Ports Bonds were outstanding in an amount of approximately $190.6 million. Bondholders holding approximately $177.2 million participated in the private exchange and received their pro rata share (based on the entire amount of PRIFA-Ports Bonds outstanding) of a cash payment of approximately $82.4 million, resulting in the full resolution of such participating PRIFA-Ports Bonds. The recovery the PRIFA-Ports bondholders received in the exchange is in addition to the GDB DRA Bonds received by the PRIFA-Ports bondholders in connection with a settlement of the bondholders' letter of credit claims against GDB, which settlement was entered into as part of the GDB Title VI Qualifying Modification. After the exchange, the PRIFA-Ports Bonds remain outstanding in the total aggregate amount of approximately $13.5 million.

(d) Default of Bond Principal and Interest Payments

Because of the Commonwealth's retention of certain revenues conditionally allocated to public corporations and priority of payment provisions, as well as the Commonwealth's general financial condition, the Commonwealth and such public corporations were not able to make the debt service payments as they became due prior to the commencement of the Title III cases. Subsequent to the commencement of such cases, the automatic stay and other provisions of law have prevented payment of such amounts. The nature of the obligations of the Commonwealth and its public corporations to make such payments is currently the subject of ongoing litigation, as discussed in Note 17.

The table below summarizes the past due balance of principal and interest on bonds as of May 31, 2021 (in thousands):

		Principal	Interest	Past due Balance
Governmental activities:				
Commonwealth	$	1,997,586	3,538,622	5,536,208
PBA		322,733	934,180	1,256,913
PRIFA		311,190	415,354	726,544
ERS		—	582,816	582,816
PA		38,938	106,961	145,899
Total governmental activities		2,670,447	5,577,933	8,248,380
PFC appropriation bonds		194,830	324,830	519,660
Major component units:				
PRHTA		479,988	893,295	1,373,283
PREPA		1,339,916	1,626,472	2,966,388
PRASA		20,325	39,629	59,954
Total major component units		1,840,229	2,559,396	4,399,625
Nonmajor component units		86,407	90,058	176,465
Total	$	4,791,913	9,135,033	13,926,946

(4) Accounting Changes and Correction of Errors

During 2018, the Commonwealth identified various errors related to prior year basic financial statements, including that certain of its blended component units incorrectly applied the guidance in GASB Statements No. 68 and No. 71. In addition, the Commonwealth's Primary Government and certain of its component units partially adopted the provisions of GASB Statement No. 75, which resulted in restatements of the beginning net position of the Commonwealth's financial statements. The impact of the related adjustments to beginning net position/fund balance are as follows:

Governmental and Business-type Activities

The following table summarizes the changes to net position at the beginning of the year as previously reported for the Governmental and Business-type activities in the government-wide financial statements (in thousands):

		Governmental Activities	Business-type Activities
Net position (deficit) – July 1, 2017, as previously reported	$	(71,129,600)	69,269
Adoption of GASB Statement No. 75:			
Recognition of total other postemployment benefits liability		(1,256,326)	(21,451)
Recognition of deferred outflow of resources for benefits payments made after the measurement date (July 1, 2017)		99,407	1,442
Entities that were fiduciary component units in fiscal year 2017, but blended component units in fiscal year 2018 (change in reporting entity)		(1,565,634)	—
Elimination of interfund receivables and payables		188,960	—
Adoption of GASB Statement No. 68 & 71: (a)			
Recognition of net pension liability		(74)	—
Recognition of deferred outflow of resources for benefits payments made after the measurement date (July 1, 2017)		198	
Overstatement of liabilities (b)		398	474
Understatement of accounts receivable (c)		7,507	—
Understatement of capital assets (d)		121	—
Net position (deficit) – July 1, 2017, as restated	$	(73,655,043)	49,734

Adoption of GASB Statement No. 75

The impact of adopting GASB Statements No. 75 in the Primary Government consisted of recognizing its proportionate share of the total other postemployment benefits liability and deferred outflows of resources for benefits payments made after the beginning total other postemployment benefits liability measurement date (July 1, 2017).

Change in Reporting Entity

As a result of the enactment of Act 106-2017, the former pension trust funds established to pay the accumulated pension benefits of the ERS, TRS, and JRS are under liquidation and reported as blended component units within the governmental activities.

Elimination of Interfund Balances

ERS, a blended component unit and formerly a fiduciary component unit, holds investments in bonds issued by COFINA, also a blended component unit. As a consequence of ERS blending within the Governmental Activities, the nature of the transaction between ERS and COFINA changed from an investment to an interfund loan resulting in the elimination of an investment of approximately $58.2 million by ERS and bonds of approximately ($247.1) million by COFINA.

Correction of Immaterial Errors – Governmental Activities

The correction of immaterial errors in the beginning net position of Governmental Activities includes a combination of the following:

a) The impact of applying the guidance in GASB Statement No. 68 and No. 71. The error correction consisted of FAFAA and PRMSA recognizing the net effects of their proportionate share of ERS' beginning net pension liability, deferred outflows of resources for pension contributions made after the beginning net pension liability measurement date and deferred inflows of resources due to differences between the projected and the actual pension plan investment earnings in different measurement periods.

b) An overstatement of compensated absences for approximately $398 thousand corrected by FAFAA.

c) An understatement of accounts receivable from governmental entities for approximately $7.5 million corrected by DEDC.

d) An understatement of capital assets corrected by HOR for approximately $121 thousand.

Correction of Immaterial Errors – Business-type activities

The correction of immaterial errors to beginning net position of the Business-type activities includes a combination of the following:

(b) An overstatement in liabilities of approximately $474 thousand in the Bureau of Emergency Services 9-1-1 was corrected.

Governmental Funds

The following table summarizes the changes to fund balances (deficit) at the beginning of the year as previously reported for the governmental funds (in thousands):

		General Fund	ERS special revenue Fund	COFINA debt service Fund	Nonmajor governmental funds
Fund balances (deficit) – July 1, 2017, as previously reported:	$	(100,564)	—	441,824	(39,070)
Entities that were fiduciary component units in fiscal year 2017, but blended component units in fiscal year 2018 (change in reporting entity)		—	1,030,115	—	542,344
Recognition of interfund balance		—	139,408	(139,408)	—
Correction of immaterial errors:					
Overstatement of other liablities (a)		—	—	—	287
Understatement of accounts receivable (b)		7,507	—	—	—
Fund balances (deficit) – July 1, 2017, as restated	$	(93,057)	1,169,523	302,416	503,561

Change in Reporting Entity

As a result of the enactment of Act 106-2017, the former pension trust funds established to pay the accumulated pension benefits of the ERS, TRS, and JRS are under liquidation and reported as blended component units within the governmental activities.

Recognition of Interfund Balances

ERS, a blended component unit and formerly a fiduciary component unit, holds investments in bonds issued by COFINA, blended component unit. As a consequence of ERS blending within the governmental funds, the nature of the transaction between ERS and COFINA changed from an investment to an interfund loan resulting in the recognition of an interfund receivable by ERS and an interfund payable by COFINA of approximately ($139.4) million.

Correction of Immaterial Errors

(a) An overstatement of compensated absences for approximately $287 thousand corrected by FAFAA.

(b) An understatement of accounts receivable from governmental entities for approximately $7.5 million corrected by DEDC.

Proprietary Funds

The following table summarizes the changes to net position at the beginning of the year as previously reported for the proprietary funds (in thousands):

		PRMeSA	Nonmajor Proprietary Funds
Net position (deficit) – July 1, 2017, as previously reported	$	(943,436)	483,466
Adoption of GASB Statement No. 75:			
Recognition of total other postemployent benefits liability		(19,188)	(2,263)
Recognition of deferred outflow of resources for benefits payments made after the measurement date (July 1, 2017)		1,290	152
Correction of immaterial errors:			
Overstatement of liabilities (a)		—	474
Net position (deficit) – July 1, 2017, as restated	$	(961,334)	481,829

Adoption of GASB Statement No. 75

The impact of adopting GASB Statement No. 75 consisted of PRMeSA and the Lotteries' recognizing their proportionate share of the total other postemployment benefits liability and deferred outflows of resources for benefits payments made after the beginning total other postemployment benefits liability measurement date (July 1, 2017).

Correction of Immaterial Errors

The correction of immaterial errors in the beginning net position of nonmajor proprietary funds includes the following:

(a) An overstatement in liabilities of approximately $474 thousand in the Bureau of Emergency Services 9-1-1 was corrected.

Discretely Presented Component Units

The following table summarizes the changes to the beginning net position for certain discretely presented component units (in thousands):

Net deficit – July 1, 2017, as previously reported	$	(12,085,936)
Adoption of GASB Statement No. 86:		
GDB		(5,705)
Adoption of GASB Statement No. 75:		
Recognition of total other postemployment benefits liability		(605,860)
Recognition of deferred outflows of resources for benefits payments made after the measurement date (July 1, 2017)		35,942
Recognition of deferred inflow of resources		(1,496)
Correction of material errors:		
Adoption of GASB Statement No. 68 and No. 71: (a)		
Recognition of net pension liability		(64,617)
Recognition of deferred outflow of resources for benefits payments made after the measurement date (July 1, 2017)		14,325
Recognition of deferred inflow of resources		(7,748)
Overstatement of capital assets (b)		1,401,676
Understatement of claims and judgments (c)		(182,281)
Various immaterial errors (d) – (i)		(6,662)
Net deficit – July 1, 2017, as restated	$	(11,508,362)

Adoption of GASB Statements No. 75

The impact of adopting GASB Statement No. 75 at the discretely presented component units consisted of recognizing its proportionate share of the total other postemployment benefits liability, deferred inflow of resources, and deferred outflows of resources for benefits payments made after the beginning total other postemployment benefits liability measurement date (July 1, 2017).

Adoption of GASB Statement No. 86

GDB adopted the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 establishes, among other things, the accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the purpose of extinguishing debt. GDB, through its HFA fund, applied the provisions of this statement to a defeasance transaction of the Mortgage Trust III Certificate Notes that had taken place during fiscal year 2011.

Correction of Material Errors

The correction of material errors in the beginning net position of discretely presented component units includes a combination of the following:

(a) The impact of applying the guidance in GASB Statements No. 68 and No. 71 by recognizing the net effects of discretely presented component units proportionate share of the beginning net pension liability, deferred inflow of resources , and deferred outflows of resources for pension contributions made after the beginning net pension liability measurement date, against beginning net position.

(b) An understatement of capital assets for approximately $1.4 billion in PREPA's basic financial statements, and an overstatement identified by the PRITA of approximately ($30) thousand, and an understatement of capital assets of approximately $72 thousand corrected by CPECMP.

(c) An understatement of approximately ($182.2) million of legal claims and judgment reserve corrected to include claims from prior years that were omitted from PREPA's prior year audited basic financial statements.

(d) An overstatement of receivables resulting from misstatements in the determination of year-end balances of PREPA of approximately ($47.4) million, and an overstatement of receivables of IPRC by approximately ($223) thousand, and an understatement of receivables of PRITA by approximately $1.5 million.

(e) An overstatement of PREPA's customer deposits of approximately $42.8 million; an understatement of accounts payable for approximately ($127) thousand in IPRC basic financial statements; an understatement of accounts payable for approximately ($14.1) million in LAPR basic financial statements; and an overstatement of approximately $412 thousand in PRITA basic financial statements.

(f) A correction of investments balances resulting from recoveries of custodial credit losses recognized in prior years by PRSWA of approximately $6.1 million.

(g) An overstatement of termination benefits payable for approximately $2.9 million in PRTEC basic financial statements; $1.3 million in PRSWA basic financial statements; and an understatement of approximately ($1.8) million in AACA basic financial statements.

(h) An overstatement of compensated absences for approximately $2.2 million in CCCPRC basic financial statements.

(i) Other immaterial errors corrected by PRHTA for approximately ($3.3) million; IPRC for approximately ($1.2) million; PRMIMTA for approximately $2.3 million; PRMFA for approximately ($1.5) million; and by PRPA for approximately $3.4 million.

(5) Puerto Rico Government Investment Trust Fund (PRGITF)

On December 1, 2017, a Termination of Trust Agreement was executed by GDB, as trustee of the Trust, and the Secretary of Treasury of the Commonwealth of Puerto Rico, as settlor for the Trust. Both parties decided to terminate the Trust, as permitted by Articles Eleven, Section 1101 of the Deed of Constitution of Trust, dated October 13, 1995, as amended (the "Deed of Trust").

Section 1101 of the Deed of Trust requires ninety days prior written notice to the Participants, The Custodian and the Administrator for the termination of the Trust. On December 1, 2017, a notice of termination was sent to all Participants of the Trust, including a request from them of a waiver of such requirements, in order to be able to terminate the Trust within such ninety-day period. Therefore, the termination of the Trust will be effective as of the earlier of: (i) the date on which the parties have received a waiver from each Participant, the Administrator and the Custodian of the ninety days prior written notice requirement provided in the Deed of Trust for the termination thereof; and (ii) ninety days from the date of the Notice, whichever occurs first.

All assets held in the Trust were distributed as required by the Deed of Trust.

(6) Deposits and Investments

Primary Government

The Primary Government may invest in different types of securities, including domestic, international, and fixed income securities, among others.

The Primary Government maintains a cash and investment pool that is available for use by all funds, including some of the fiduciary funds. Each fund's portion of this pool is reported on the statement of net position and balance sheet as cash and cash equivalents.

Cash and Cash Equivalents

Custodial credit risk for deposits is the risk that in the event of bank failure, the Commonwealth's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

Deposits in governmental banks represent the balance of interest and noninterest bearing accounts in GDB and EDB. The deposit liability at the GDB and the EDB is substantially related to deposits from the DOT, its component units and its municipalities. However, any deposits at GDB as of June 30, 2018 were subsequently transferred to the PET on November 29, 2018 pursuant to GDB's Qualifying Modification and the GDB Restructuring Act,

Deposits maintained at GDB, EDB, and commercial banks established outside Puerto Rico are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event that these financial institutions fail, the Commonwealth may not be able to recover these deposits. On November 29, 2018, all claims that the Commonwealth and other governmental entities may have had against GDB, including their GDB deposits, were released pursuant to the Qualifying Modification and the GDB Restructuring Act. The carrying amount of deposits of the Primary Government at June 30, 2018 consists of the following (in thousands):

	Carrying amount			Bank
	Unrestricted	**Restricted**	**Total**	**balance**
Governmental activities:				
Commercial banks	$ 3,602,192	1,253,560	4,855,752	4,933,641
Governmental banks	2,201	208	2,409	883,612
Total	$ 3,604,393	1,253,768	4,858,161	5,817,253

	Carrying amount			Bank
	Unrestricted	**Restricted**	**Total**	**balance**
Business-type activities:				
Commercial banks	$ 270,917	49,297	320,214	333,792
Governmental banks	3	19	22	227,278
Under the custody of the U.S. Treasury	—	581,377	581,377	581,471
Total	$ 270,920	630,693	901,613	1,142,541

As of June 30, 2018, the total aggregate amount of the Primary Government's bank balance of deposits in commercial banks was approximately $5.3 billion, covered by the FDIC or by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $581 million with the U.S. Treasury represent unemployment insurance premiums collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The Primary Government's bank balance of deposits in governmental banks, which as of June 30, 2018, aggregated approximately $1.1 billion, is also uninsured and uncollateralized.

Custodial Credit Loss on Deposits held at GDB and EDB

GDB faced a critical and economic situation as of June 30, 2018 as described in Note 2. Therefore, deposits held at GDB were subject to strict restrictions and limitations during the fiscal year, and subsequent periods. GDB served as the primary depository agent of the Commonwealth, its instrumentalities and municipalities' funds; depositors' cash and cash equivalents with GDB were thus subject to custodial credit risk. In the case of EDB, due to the spiral of economic deterioration affecting the Commonwealth, including downgrades in credit ratings of the Commonwealth's bonds led the private sector to retire deposits from EDB. Also, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB, reducing EDB's capacity to issue commercial loans or make investments in financial instruments. In addition to these situations, the investments held by EDB had declined in value and EDB was running only on the interest income generated by its loan's portfolio. Due to the high default rate on its loans portfolio, the ability to raise cash through loan repayments was limited. Management determined that a custodial credit loss existed as of June 30, 2018 for the deposits held at GDB and EDB. Based on an

evaluation of the availability and recoverability of such deposits, a custodial credit loss on these deposits has been recorded on the Primary Government's basic financial statements as follows (in thousands):

		Amount
Governmental activities:		
Carrying value before loss	$	883,612
Custodial credit loss		(881,203)
Net carrying value	$	2,409

		Amount
Business-Type activities:		
Carrying value before loss	$	227,278
Custodial credit loss		(227,256)
Net carrying value	$	22

A recovery on custodial credit loss of approximately $1.1 million was recognized in 2018 as general government expenditures of the Governmental Activities and belong substantially to those DOT accounts and those blended component units or agencies that issued their stand-alone basic financial statements considering the impact of the custodial credit loss. The realizable balance of the deposits held with the GDB as of June 30, 2018 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2018 year end.

A custodial credit loss of approximately $15 thousand was recognized in 2018 as an operating expenses of the Business-type activities.

As discussed in Note 2(c), on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification and the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and each Non-Municipal Government Entity and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of this foregoing adjustment, all of the Commonwealth's deposits at GDB were extinguished as a result of the Qualifying Modification.

EDB is in the process of developing a strategy to restructure its obligations and operations. Upon the eventual restructuring of EDB obligations and operations, the recorded and unrecorded custodial credit loss on the cash and cash equivalents disclosed above may change.

Investments

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Commonwealth may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk – This is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation.

Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

The Commonwealth's general investment policy is to apply the "prudent investor" rule, which states investments must be made with judgment and care under circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, and considering the probable safety of their capital as well as the probable income to be derived. The prudent investor rule should be applied in the context of managing an overall portfolio.

Short-term funds of the agencies, including operating funds, may be invested in U.S. Treasury bills; U.S. Treasury notes or bonds with short-term maturities; short-term obligations of U.S. government agencies and instrumentalities classified within the highest rating category of Standard & Poor's Rating Services (S&P) and Moody's Investors Service (Moody's); fully insured or collateralized certificates of deposit of eligible financial institutions designated by the Commissioner of Financial Institutions and the Secretary of the DOT; prime commercial paper rated A1/P1 by S&P and Moody's or secured by an irrevocable line of credit of an institution rated within the highest rating category of S&P and Moody's or collateralized by government securities; bankers' acceptances (as alternatives to CDs) of eligible financial institutions doing business in Puerto Rico provided adequate collateral has been pledged; the PRGITF; obligations of the Commonwealth and its instrumentalities with an expected rate of return similar to other securities with the same risk profile.

Longer term funds may also be invested in U.S. government and agency securities in the highest rating category of S&P and Moody's. This includes Taxable Municipal Bonds of state and local governments in the United States classified within the three (3) highest categories of at least two of the principal rating services; taxable municipal obligations of the Primary Government and its component units; structured investments (notes and other types of on balance sheet securities issued by a U.S. Government Agency or another financial institution in the highest rating category of at least two of the principal rating services); and any mortgage backed instrument issued by a U.S. Government Agency in the highest rating category of S&P and Moody's.

Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commonwealth policy on larger portfolios with positions in securities having potential default risk is to limit the investments in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.

Interest Rate Risk – It is the Commonwealth policy that a minimum 10% of the total portfolio be held in highly marketable U.S. Treasury bills or overnight investment instruments. Larger portfolios should not hold more than 30% of the portfolio in marketable instruments with maturities beyond one month. This policy should be followed as long as it does not reduce investment yields.

Governmental Activities

The Governmental Activities investments consisted of approximately $83.7 million in nonparticipating investment contracts (guaranteed investment contracts) that were exposed to custodial risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the Primary Government's name.

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Notes to Basic Financial Statements

June 30, 2018

At June 30, 2018, the fair value of the Governmental Activities' investments based on the hierarchy of inputs was as follows (in thousands):

Investment type		Level 1	Level 2	Level 3		Total
U.S. government securities	$	—	43,416	—		43,416
U.S. corporate bonds and notes		—	843,824	—		843,824
External investment pools – fixed-income securities:						
U.S. Bank Money Market		24,415	—	—		24,415
Nonparticipating investment contracts:						
UniCredit Bank AG – Guaranteed:						
Investment Contract		—	—	83,684		83,684
Total investments measured at fair value	$	24,415	887,240	83,684		995,339
Investments measured at amortized cost or NAV:						
Dreyfus Government Cash Management						297,110
Money market funds						28,706
Negotiable certificate of deposits						103,696
Limited partnership/private equity						86,090
Other						1,521
Total investments					$	1,512,462

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June 30, 2018

The following table summarizes the type and maturities of investments held by the Governmental Activities at June 30, 2018 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type		Maturity (in years) Within one year	After one to five years	After ten years		Total
U.S. government securities	$	43,416	—	—		43,416
U.S. corporate bonds and notes		843,824	—	—		843,824
Money market funds		12,945	15,761	—		28,706
Negotiable certificates of deposits		103,696	—	—		103,696
Other		—	1,521	—		1,521
External investment pools – fixed-income securities:						
Dreyfus Government Cash Management		297,110	—	—		297,110
U.S. Bank Money Market		24,415	—	—		24,415
Nonparticipating investment contracts:						
Unicredit Bank AG-Guaranteed Investment Contract		—	—	83,684		83,684
Total debt securities and fixed-income investment contracts	$	1,325,406	17,282	83,684		1,426,372
Equity securities:						
Limited parterships/private equity						86,090
Total						1,512,462
Reconciliation to the government-wide statement of net position:						
Unrestricted investments					$	188,145
Restricted investments						1,324,317
Total					$	1,512,462

The credit quality ratings (S&P) and fair value by investment type for the investments reported by the Governmental Activities at June 30, 2018 consisted of the following (in thousands):

		Rating				
Investment type		**AAA**	**A+ to A-**	**BBB+ to B-**	**Not Rated**	**Total**
U.S. corporate bonds and notes	$	—	843,824	—	—	843,824
Money market funds		28,706	—	—	—	28,706
Negotiable certificate of deposits		103,696	—	—	—	103,696
Other		1,521	—	—	—	1,521
External investment pools – fixed-income securities:						
Dreyfus Government Cash Management		297,110	—	—	—	297,110
US Bank Money Market		—	—	24,415	—	24,415
Nonparticipating investment contracts:						
UniCredit Bank AG-Guaranteed Investment Contract		—	—	—	83,684	83,684
Total debt securities and fixed-income investment contracts	$	431,033	843,824	24,415	83,684	1,382,956

Approximately $43.4 million of the total Governmental Activities' investments consist of U.S. Treasury instruments, which carry no credit risk and therefore, are not included within the table above.

Investments in Limited Partnerships

Pursuant to the Commonwealth's General Investment Policy, the pension trust funds invested approximately $10.1 million in limited partnerships during the year ended June 30, 2018.

The fair value of investments in limited partnerships at June 30, 2018 amounted to approximately $86 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings of subject companies' management.

As of June 30, 2018, the Governmental Activities had capital commitments with limited partnerships and related contributions as follows (in thousands):

		Public sector commitments	Fiscal year contributions	Cumulative contributions	Fair value
Guayacán Fund of Funds II, L.P.:					
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$	25,000	—	7,337	344
Puerto Rico System of Annuities and Pensions for Teachers		25,000	—	23,681	344
Subtotal		50,000	—	31,018	688
Guayacán Private Equity Fund, L.P.:					
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico		5,000	—	3,315	1,768
Puerto Rico System of Annuities and Pensions for Teachers		5,000	—	4,645	1,745
Subtotal		10,000	—	7,960	3,513

	Public sector commitments	Fiscal year contributions	Cumulative contributions	Fair value
Guayacán Private Equity Fund II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	—	20,562	19,738
Subtotal	25,000	—	20,562	19,738
Other Funds:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	78,300	10,135	58,766	62,151
Subtotal	78,300	10,135	58,766	62,151
Total	$ 163,300	10,135	118,306	86,090

Business-type Activities

At June 30, 2018, the fair value of the Business-type activities' investments based on the hierarchy of inputs is as follows (in thousands):

Investment type	Level 1	Level 2	Level 3	Total
U.S. government and agency securities	$ —	4,111	—	4,111
Mortgage and asset-backed securities:				
GNMA	—	86	—	86
FNMA	—	975	—	975
FHLMC	—	1,454	—	1,454
Commercial mortgages	—	824	—	824
Asset-backed securities	—	385	—	385
Other		432		432
U.S. corporate bonds and notes	—	7,922	—	7,922
Foreign corporate and government bonds and notes	—	360	—	360
External investment pools – equity securities	—	10,269	—	10,269
Total investments measured at fair value	$ —	26,818	—	26,818

The following table summarizes the type and maturities of investments held by the Business-type activities at June 30, 2018 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

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Investment type		Maturity (in years) Within one year	After one to five years	After five to ten years	After ten years	Total
U.S. government and agency securities	$	—	1,696	972	1,443	4,111
Mortgage and asset-backed securities:						
GNMA		—	—	—	86	86
FNMA		—	1	141	833	975
FHLMC		—	13	159	1,282	1,454
Commercial mortgages		—	—	824	—	824
Asset-backed securities		—	218	167	—	385
Other		—	—	432	—	432
U.S. corporate bonds and notes		615	3,543	2,857	907	7,922
Foreign corporate and government bonds and notes		—	—	26	334	360
Total debt securities	$	615	5,471	5,578	4,885	16,549
External investment pools – equity securities:						
SPDR S&P 500 ETF Trust						8,186
MFC ISHARES TR Russell 2000 Index Fund						966
MFC Vanguard FTSE Developed						1,066
MFC Vanguard FTSE Emergency MKTS ETF						51
Total					$	26,818
Reconciliation to the government-wide statement of net position:						
Restricted investments					$	26,818
Total					$	26,818

The credit quality ratings (S&P) and fair value by investment type for the investments reported by the Business-type activities at June 30, 2018 consist of the following (in thousands):

Investment type		Rating AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	Not rated	Total
Mortgage and asset-backed securities:								
FNMA	$	975	—	—	—	—	—	975
FHLMC		1,454	—	—	—	—	—	1,454
Commercial mortgages		641	—	—	—	—	183	824
Asset-backed securities		385	—	—	—	—	—	385
Other		432	—	—	—	—	—	432
U.S. corporate bonds and notes		587	1,109	3,225	2,902	99	—	7,922
Foreign corporate and government bonds and notes		271	87	2	—	—	—	360
Total debt securities	$	4,745	1,196	3,227	2,902	99	183	12,352

Approximately $4.2 million of the total Business-type activities' investments consist of approximately $86 thousands in U.S. Government National Mortgage Association (GNMA) securities and approximately $4.1 million in U.S. Treasury Instruments, which carry no credit risk and therefore, are not included within the table above.

Fiduciary Funds

Cash and Cash Equivalents

Cash and cash equivalents of the Fiduciary Funds at June 30, 2018 consisted of the following (in thousands):

		Carrying amount			Bank
		Unrestricted	**Restricted**	**Total**	**balance**
Commercial banks	$	973,331	—	973,331	973,331
Governmental banks (all with GDB), net		50	—	50	15,956
Total	$	973,381	—	973,381	989,287

Cash and cash equivalents consist of deposits with commercial banks, deposits with the GDB and short-term investments. Short-term investments include money market funds and other cash equivalents.

Custodial Credit Loss on Deposits held at GDB

Based on an evaluation of the availability and recoverability of deposits, a custodial credit loss has been recorded on the fiduciary funds' basic financial statements as follows (in thousands):

		Deposits Held with GDB at June 30, 2018		
		Carrying value before custodial credit loss	**Custodial credit loss**	**Carrying value**
Cash and cash equivalents	$	15,956	(15,906)	50

The above custodial credit loss belongs to the Agency Fund. The realizable balance of the deposits held with the GDB as of June 30, 2018 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2018 year end.

Discretely Presented Component Units

Deposits

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, and bank investment contracts. Cash and cash equivalents of the discretely presented component units at June 30, 2018 consisted of (in thousands):

Major Discretely Presented Component Units

		Carrying amount			Bank
		Unrestricted	**Restricted**	**Total**	**balance**
Commercial banks	$	1,312,349	750,615	2,062,964	2,189,392
Governmental banks		—	4,649	4,649	335,817
Total	$	1,312,349	755,264	2,067,613	2,525,209

As of June 30, 2018, the major discretely presented component units had approximately $335.8 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

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Nonmajor Discretely Presented Component Units

		Carrying amount			Bank
		Unrestricted	Restricted	Total	balance
Commercial banks	$	362,245	118,796	481,041	480,812
Governmental banks		5,520	1	5,521	132,052
Total	$	367,765	118,797	486,562	612,864

As of June 30, 2018, the nonmajor discretely presented component units had approximately $132.1 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Custodial Credit Loss on Deposits held at GDB and EDB

Management determined that a custodial credit loss existed at June 30, 2018 for the deposits held at GDB and EDB. Based on an evaluation of the availability and recoverability of such deposits, a custodial credit loss on these deposits has been recorded on the discretely presented component units' basic financial statements within general expenses as follows (in thousands):

		Amount
Major component units:		
Carrying value before custodial credit loss	$	335,817
Custodial credit loss		(331,168)
Net carrying value	$	4,649

		Amount
Nonmajor component units:		
Carrying value before custodial credit loss	$	132,052
Custodial credit loss		(126,531)
Net carrying value	$	5,521

The aforementioned custodial credit losses were related to those discretely presented component units which issued their stand-alone basic financial statements considering the impact of the custodial credit loss. The realizable balance of the deposits held with the GDB as of June 30, 2018 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2018 year end.

A custodial credit loss of approximately $1.2 million was recognized as general and administrative expenses of the discretely presented component units during fiscal year 2018.

As discussed in Note 2(c), on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification and the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and each Non-Municipal Government Entity and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of this foregoing adjustment, all of the Commonwealth's deposits at GDB were extinguished as a result of the Qualifying Modification.

EDB is in the process of developing a strategy directed to restructure its obligations and operations.

Credit Risk – In addition to the investments permitted for the Primary Government, the discretely presented component units' investment policies allow management to invest in the following: certificates of deposit or Euro notes issued by financial institutions in the U.S. in which the issuer is classified in the highest rating category for short-term obligations and in the two highest rating category for long-term obligations as classified by S&P and Moody's: corporate notes and bonds classified in the highest categories of at least two of the principal rating services; taxable corporate debt issued through AFICA within the two (2) highest rating categories of at least two of the principal rating services; trust certificates (subject to prior written consultation with GDB); and Mortgage and Asset Backed Securities rated AAA by S&P or Aaa by Moody's; no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

The discretely presented component units' investment policies establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

The discretely presented component units' investment policies provide that investment transactions must be entered into with counterparties that are rated BBB+/A 1 or better by S&P's or equivalent rating by Fitch Ratings or Moody's, depending on the type and maturity of the investment and the counterparty to the transaction.

Concentration of credit risk – In addition, the investment policy specifies that no more than 5% of a manager's assets at fair value must be invested in the securities of any single issuer. The following table summarizes the type and maturities of investments held by the discretely presented component units at June 30, 2018 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Discretely Presented Component Units

At June 30, 2018, the fair value of the discretely presented component units' investments based on the hierarchy of inputs is as follows:

Investment type		Level 1	Level 2	Level 3	Total
U.S. government securities	$	288,913	5,694	—	294,607
U.S. government agencies notes:					
FHLB		304	3,798	—	4,102
FNMA		5,784	13,418	—	19,202
FHLMC		1,349	1,035	—	2,384
FFCB		—	1,010	—	1,010
Other		—	1,771	—	1,771
Mortgage and asset-backed securities:					
GNMA		78,569	1,249	—	79,818
FNMA		10,369	9,075	—	19,444
FHLMC		6,568	11,749	—	18,317
Commercial mortgages		—	449	—	449
Asset-backed securities		—	3,649	—	3,649
Other		159	377	—	536
U.S. corporate bonds and notes		50,145	69,440	—	119,585
Foreign government bonds and notes		1,567	493	—	2,060
U.S. municipal notes		—	2,640	—	2,640
Commonwealth agency bonds and notes		—	56,541	—	56,541
External investment pools – fixed – income securities		13,480	655	—	14,135
U.S. corporate stocks		317,653	—	—	317,653
Investments at fair value level	$	774,860	183,043	—	957,903
Investments valued at NAV or amortized cost:					
Cash equivalent – money market fund					79,309
Negotiable certificates of deposit					158
Mutual funds					49,264
Limited partnership/private equity					181,440
Guaranteed investments contract					69,997
External investment pools – equity securities					118,919
Total major component units					1,456,990
Total nonmajor component units					1,327,963
Total investments				$	2,784,953

The following table summarizes the type and maturities of investments held by major discretely presented component units at June 30, 2018 (in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)				
Investment type	**Within one year**	**After one to five years**	**After five to ten years**	**After ten years**	**Total**
U.S. government securities	$ 254,947	12,945	18,979	7,736	294,607
U.S. government sponsored agencies notes:					
FHLB	3,172	799	131	—	4,102
FNMA	5,848	6,425	2,036	4,893	19,202
FHLMC	—	1,315	—	1,069	2,384
FFCB	—	1,010	—	—	1,010
Other	—	1,543	228	—	1,771
Mortgage and asset-backed securities:					
GNMA	—	—	43,940	35,878	79,818
FNMA	—	743	8,632	10,069	19,444
FHLMC	—	2,495	3,925	11,897	18,317
Commercial mortgages	—	170	—	279	449
Asset-backed securities	—	2,261	1,388	—	3,649
Other	—	—	—	536	536
U.S. corporate bonds and notes	14,884	50,367	48,570	5,764	119,585
Foreign government bonds and notes	366	—	1,567	127	2,060
U.S. municipal notes	125	—	1,321	1,194	2,640
Commonwealth agency bonds and notes	42,495	13,923	—	123	56,541
Money market funds	79,309	—	—	—	79,309
Negotiable certificates of deposit	158	—	—	—	158
External investment pools – fixed-income securities	4	582	69	13,480	14,135
Nonparticipating investment contracts	—	62,093	—	7,904	69,997
Mutual Funds	49,264	—	—	—	49,264
Total debt securities and fixed-income investment contracts	$ 450,572	156,671	130,786	100,949	838,978
Equity securities:					
U.S. corporate stocks					317,653
External investment pools – equity securities					118,919
Limited partnership/private equity					181,440
Total major component units					1,456,990
Total nonmajor component units					1,327,963
Total					$ 2,784,953

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Investment type	Maturity (in years) Within one year	After one to five years	After five to ten years	After ten years	Total
Reconciliation to the government-wide statement of net position:					
Unrestricted investments					$ 1,506,593
Restricted investments					1,278,360
Total					$ 2,784,953

Custodial Credit Risk – The discretely presented component units had approximately $1.6 billion (approximately $655.1 million and $914.8 million at major and nonmajor discretely presented component units, respectively) in various types of U.S. government and agency securities, mortgage backed securities, and other investments that were exposed to custodial credit risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the discretely presented component units' name.

Foreign Currency Risk – SIFC (a major discretely presented component unit) limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2018, the SIFC had the following investments denominated in foreign currency (in thousands):

Description	Currency	Fair value
Common and preferredstocks and equities	Australian dollar	$ 1,111
	Swiss Franc	2,745
	Danish Krone	1,565
	Euro	10,635
	British Pound	4,331
	Hong Kong Dollar	1,138
	Indonesian Rupiah	531
	Japanese Yen	7,332
	Norwegian Krone	484
	Swedish Krona	1,499
	Singapore Dollar	319
	South African Rand	577
Total		$ 32,267

Custodial Credit Loss on Deposits held at GDB and EDB

Certain negotiable certificates of deposits presented in the investment tables above were deposits at GDB. As GDB served as the depository agent of these deposits, such certificates of deposits at GDB, were subject to custodial credit risk. Management determined that a custodial credit loss existed at June 30, 2018 for the deposits held at GDB. Based on an evaluation of the availability and recoverability of such deposits, a custodial credit loss on these deposits has been recorded on the corresponding discretely presented component units' basic financial statements as follows (in thousands):

		Certificates of Deposits Held in Governmental Banks at June 30, 2018		
		Carrying value before custodial credit loss	Custodial credit loss	Net carrying value
Major component units:				
UPR	$	93,477	(93,477)	—
Nonmajor component units		185,671	(137,652)	48,019
Total component units	$	279,148	(231,129)	48,019

The aforementioned custodial credit loss was related to those discretely presented component units which issued their 2018 stand-alone basic financial statements considering the impact of the custodial credit loss. The realizable balance of the deposits held with the GDB as of June 30, 2018 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2018 year end. There were no certificates of deposits in EDB as of June 30, 2018.

As discussed in Note 2(c), on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification and the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and each Non-Municipal Government Entity and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. As a result of this foregoing adjustment, all of the Commonwealth's deposits at GDB were extinguished as a result of the Qualifying Modification.

EDB is in the process of developing a strategy directed to restructure its obligations and operations.

Subsequent Downgrades in Credit Ratings of Commonwealth's Bonds

As explained in Note 23, beginning in fiscal year 2015, several bonds of the Commonwealth and its instrumentalities were downgraded on multiple occasions and by notches by the principal credit rating agencies in the United States. However, most of the existing investments in the tables above were not affected. Generally, the investment policies of the Commonwealth require its agencies and instrumentalities to hold only investment grade ratings debt securities in their investment portfolio. With over 85% and 81% of the investments at the Primary Government and discretely presented component unit level, respectively, with credit ratings no lower than "A" or without risks at June 30, 2018, overall average credit ratings on the entire investment portfolio have remained within the Commonwealth's required investment policies, even after the downgrades. The remaining percentage of investments is either rated throughout the B spectrum or not rated, except for a SIFC (major discretely presented component unit) investment in GDB bonds of approximately $56.5 million and four nonmajor discretely presented component units' investments in GDB, Primary

Government Bonds, and Commonwealth's Municipalities Bonds of approximately $457 million, all of which are rated D as of June 30, 2018.

(7) Securities Lending and Repurchase Agreement Transactions

During the fiscal year ending June 30, 2018, GDB, and SIFC (all discretely presented component units) entered into transactions involving securities lending and the sale of securities with agreements to repurchase. These transactions are explained below:

Discretely Presented Component Units

GDB – The Bank enters into sales of securities under agreements to repurchase. These agreements generally represent short-term borrowings and are reflected as a liability. The securities underlying these agreements are usually held by the broker or his/her agent with whom the agreement is transacted. All sales of investments under agreements to repurchase are based on fixed terms. In investing the proceeds of securities sold under agreements to repurchase, the Bank's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. As of and during the year ended June 30, 2018, there were no securities sold under agreement to repurchase.

SIFC – The Commonwealth statutes and the SIFC's board of directors' policies permit the SIFC to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities, and/or irrevocable bank letter of credit.

The SIFC's securities custodian, JP Morgan Chase Bank, N.A., as agent of the SIFC, manages the securities lending program and receives cash collateral, securities, or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America, of the fair value of the securities lent. Collateral must be supplemented by the next business day if its fair value falls to less than 100% of the fair value of the securities lent. All security loans can be terminated on demand by either the SIFC or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral. Such matching existed at year end.

At year end, the SIFC has no credit risk exposure to borrowers because the amounts the SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify the SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the SIFC for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2018 had a fair value of approximately $11.2 million and were secured with collateral received with a fair value of approximately $11.1 million. Securities lent for which cash was received as collateral as of June 30, 2018 consist of the following (in thousands):

Investment type		Fair value of underlying securities
Foreign government and corporate bonds	$	595
Equity securities		4,054
Corporate bonds and notes		6,308
Total	$	10,957

Cash collateral received as of June 30, 2018 amounted to approximately $11.2 million and was invested as follows (in thousands):

Investment type		Fair value of underlying securities
Certificate of deposits with other banks	$	528
Resell agreements		10,696
Total	$	11,224

In addition, the SIFC had the following lending obligations as of June 30, 2018 for which securities were received as collateral (in thousands):

		Fair value	
Description		Securities lent	Investment collateral received
Foreign government and corporate bonds	$	93	95
U.S. Treasury bonds and notes		279	284
Corporate bonds and notes		796	816
Equity securities		10,774	11,023
	$	11,942	12,218

(8) Receivables and Payables

Governmental and Proprietary Funds

Receivables in the governmental funds include approximately $1.9 billion of accrued income, excise, and sales and use taxes. Intergovernmental receivables include approximately $643.2 million from the federal government. In addition, the proprietary funds include $66.1 million of unemployment, disability, and drivers' insurance premium receivables; approximately $19 million receivable from private citizens, member institutions, and municipalities for patient services provided by the PRMeSA; and approximately $563.9 million receivable from the U.S. Department of Health (USDOH), municipalities and private citizens and pharmacies for the related health insurance coverage services provided by PRHIA's operations.

Payables in the governmental funds include approximately $1.7 billion of trade accounts due to suppliers for purchase of merchandise and services rendered,and approximately 338.1 million of salary related benefits owed to eligible police agents for annual salary increases, awards, and other monetary benefits granted to them through several laws dating back to 1954, and approximately $597.1 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004 1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended (the TB), a receivable of $36.9 million was recorded as other receivable in the government-wide financial statements and in the nonmajor governmental funds for estimated shipments from January 1 to June 30, 2018, which will be applied to debt service upon collection. Additionally, the TB indicated that the trust designated as the Tobacco Settlement Authority (the Children's Trust in the case of the Commonwealth) should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone basic financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bonds sold to the settling government (the Commonwealth). Since the Children's Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out of the fund that accounts for the activities of the Tobacco Settlement Authority. Since the Children's Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the Tobacco Settlement Authority to the settling government (the Commonwealth), the Children's Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Prior to the enactment of Act 106-2017 on August 23, 2017, loans receivable from plan members were guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable were received through payroll withholdings. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016. The latest maximum amount of loans to plan members for mortgage loans was $100,000 for ERS and JRS and $125,000 for TRS, and $5,000 for personal and cultural trip loans for the three systems. During the year ended June 30, 2014 and 2013, ERS personal loans with principal balances amounting to approximately $100 million and $88 million, respectively, were sold to two financial institutions. As per the servicing agreement, ERS will be in charge of the servicing, administration and collection of loans and outstanding principal balances at the end of the closing date for a servicing fee of 2%. After August 23, 2017, pension benefits will be paid by each participating employers as the benefits become due (as discuss in Note 18).

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, that is a specific allowance for the special collection project loans balances.

As of June 30, 2018, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable from plan members:		
Personal	$	331,886
Mortgage		307,732
Cultural trips		30,221
Total loans to plan members		669,839
Accrued interest receivable		24,864
Total loans and interest receivable from plan members		694,703
Less allowance for adjustments and losses in realization		(23,279)
Total loans and interest receivable from plan members – net	$	671,424

Discretely Presented Component Units – GDB

At June 30, 2018, loans from GDB to public corporations and agencies of the Commonwealth (excluding municipalities) amounting to approximately $6 billion were repayable from the following sources (in thousands):

		Amount
Repayment source:		
Proceeds from future bond issuances	$	1,504,300
General fund and/or legislative appropriations		3,373,526
Operating revenues		1,123,402
Other		44,160
Total	$	6,045,388

For the fiscal year ended June 30, 2018, there were no disbursements or collections of principal of public-sector loans with future bond issuances as the source of repayment. Public-sector loans payable by the Commonwealth's General Fund and/or appropriations had collections of principal amounting to approximately $30.1 million but had no disbursements during the year ended June 30, 2018. During the fiscal year ended June 30, 2018, GDB offset approximately $283.5 million of deposits from COFIM, against principal owed by MFC to GDB for public sector loans with operating revenue and other as a source of repayment.

At June 30, 2018, approximately $3.4 billion of the public-sector loans were payable from legislative appropriations or future tax revenue of the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints and the overall fiscal situation impacting Puerto Rico.The budget certified by the Oversight Board for fiscal years 2019 and 2020 did not include appropriations for the payment of debt service by the Commonwealth and its public corporations. The future repayments of borrowers under Title III proceedings may be subject to an approved plan of adjustment for such debtor.

As of June 30, 2018, PRHTA had an authorized maximum of approximately $2 billion in financing with GDB, with an outstanding balance of approximately $1.7 billion in principal. Historically, these facilities were repaid from proceeds of bond issuances. All of these facilities have been extended repeatedly and have not been

paid as scheduled. On December 1, 2015, the Commonwealth announced its intention to retain certain taxes and revenues that were conditionally allocated to certain public corporations and agencies, including PRHTA.

PRHTA is currently in a debt restructuring proceeding under Title III of PROMESA and does not currently have sufficient funds available to fully repay its various obligations, including those owed to GDB, as they come due or that are currently in default.

As of June 30, 2018, the majority of loans to public corporations and agencies totaling approximately $6 billion were classified as nonaccrual. Interest income that would have been recorded under the original term of these loans amounted to approximately $376 million in fiscal year 2018.

GDB considers the public-sector loan portfolio to be impaired based on current information and events, including the significant delays in the receipt of the scheduled debt service payment mentioned above. In Management's opinion, it is highly probable that GDB will be unable to collect all amounts due according to the loan's original contractual terms, particularly in light of the Title III cases of certain borrowers. GDB's evaluation of impaired loans consisted of identifying which public-sector loans have reliable or unreliable sources of repayment, respectively. Loans with reliable sources of repayment that were performing were evaluated collectively. Loans with unreliable sources of repayment were evaluated for impairment individually. Impaired loans are measured individually based on the present value of expected future cash flows discounted at the loan's effective interest rate, or if the loan is collateral dependent, the fair value of the collateral.

During fiscal year 2018, GDB recognized a provision for loan losses of approximately $5.5 million in its public corporations and agencies loan portfolio. As of June 30, 2018, the public-sector loan portfolio had an allowance for loan losses in the amount of approximately $5.8 billion. Prior to fiscal year 2014, no charge-off has been recorded by GDB in its public-sector loan portfolio.

Loans to municipalities amounted to approximately $1.9 billion at June 30, 2018. For the year ended June 30, 2018, there were no municipal sector loan disbursements and collections amounted to approximately $112.3 million. These loans include approximately $1.2 billion at June 30, 2018, which are collateralized by a pledge of a portion of property tax assessments of each municipality. Loans pledged with property tax assessments include bonds and notes issued by Puerto Rico municipalities which are originated by GDB as bridge financing. Approximately $460 million in loans to municipalities at June 30, 2018, are collateralized by a pledge of a portion of municipal sales tax deposited in specially designated accounts with GDB. The funds available in such accounts increase the borrowing capacity of the corresponding municipality. Approximately $225 million in loans to municipalities at June 30, 2018, were provided mainly as interim loans to finance capital expenditures that are payable from revenues to be generated from a specific revenue generating project associated with the loan or to cover operating losses. Once operating loans are approved and if the municipality is not servicing the debt with its own funds, GDB informs the CRIM in order to withhold property taxes revenues and remit them directly to GDB before they are distributed to the municipalities. Approximately $36.5 million in municipality loans were identified as delinquent as of June 30, 2018. No interest was collected on these loans during the year ended June 30, 2018.

During fiscal year 2018, GDB recognized a release in the provision for loan losses of approximately $28.5 million in its municipal loans portfolio to end up with an allowance for loan losses of approximately $48.9 million at June 30, 2018.

Loans to the private sector include the outstanding principal balance of credit facilities granted by GDB and its different subsidiaries to private enterprises in Puerto Rico, the activities of which are deemed to further the economic and tourism development of Puerto Rico. Loans to the private sector also include the

outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low- and moderate-income multifamily housing units in Puerto Rico. These credit facilities, net of allowance for loan losses, amounted to approximately $185 million at June 30, 2018, of which approximately $175 million are mortgage loans for low and moderate-income housing units, approximately $10 million are for tourism projects and approximately $127 thousand are manufacturing loans. Private sector loans classified as nonaccrual amounted to approximately $133.6 million at June 30, 2018 and had a corresponding allowance for loan losses of approximately $110.9 million as of June 30, 2018. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $11.9 million in 2018.

Tax Abatements

The Commonwealth follows the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement defines a tax abatement and requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Commonwealth enters into tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within the Commonwealth. Each agreement was negotiated under a local law, which allows the Commonwealth to abate property or income taxes for a variety of economic development purposes. The abatements may be granted to local businesses located within the Commonwealth or promising to relocate within the Commonwealth. Depending on the terms of the agreement and law, abated taxes may be subject to recapture upon default of the entity. The Commonwealth is not subject to any tax abatement agreements entered into by other governmental entities. There were no amounts received or receivable from other governments; there were no government made commitments other than to reduce taxes; there were no abatements disclosed separately, and no information was omitted if required by GASB Statement No. 77. The following table represents the abated revenues for the year ended June 30, 2018:

Name of program	**Stipends received by certain physicians during their internship**	**Credit for construction investment in urban centers**	**Credit for investment in tourism development**	**Purchase: Tourism Development**	**Act 135 - 1997, Tax Incentives Law of 1998**
Purpose of program	Tax exemption of stipends to resident physicians to keep them in the public service.	Tax abatement to promote and incentivize the revitalization of Urban Centers through construction of living spaces. Promote increase in property values and create jobs.	The amount of credit for tourism investment. Every investor may claim a credit for tourism investment equal to 50% of its eligible investment.	Act 78 provides 90% exemption on income from eligible tourism activities, including benefits and dividends distributed from the exempt business to its shareholders or partners, as well as distributions in liquidation.	To provide the best economic and social interests of Puerto Rico through fixed income rates of the manufacturing industry.
Abated tax	Individual Tax	Individual Tax	Individual Tax	Corporate Tax	Corporate Tax
Authorizing statute/ordinance	PR Internal Revenue Code Section 1031.02 (a) 9	PR Internal Revenue Code Section 1051.08(b) (5) & Act 212 of 2002	Art. 5(f) Act 78-1993Art. 14 Act 225-1995 Schedule B Part II Line 12 & Act 78 of 1993	Art. 5 Act 78 -1993	Act 135-1997
Eligibility requirement	Resident doctor training at a governmental hospital facility	Project certified by the Director of Urbanism of the Department of Transportation	The business must establish a qualified project certified by the PRTC.	Every investor (including a participant) will be entitled to a credit for tourism investment in securities of a fund.	Fixed Income rate decree signed with the favorable recommendation of the Secretary of Treasury and the Executive Director
Type of commitment made by the recipient of the abated tax	Complete internship in a public hospital.	Provide construction services directly related to the revitalization of urban centers.	Invest in the development of the local tourism industry.	Invest in the development of the local tourism industry.	Invest in the development of the local manufacturing industry.
How tax is reduced	Income Tax Credit	Income tax Credit	Income tax Credit	Credit for tourism investment equal to 50% of their eligible investment or their investment in securities of a fund, to be taken in 2 terms: The first half of said credit in the year in which the exemption is obtained and the balance of said credit, in the following year.	Reduction of Tax
Determination of abated tax	Abated tax amount determined by law	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax rate established by decree
Recapture agreement	none	none	none	none	none
Gross dollar amount of reduced tax	$ 2,351,000	$ 8,100,000	$ 7,700,000	$ 3,000,000	$ 13,800,000,000

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Name of program	Act 225 - 1995, Law on Agricultural Contributive Incentives of PR	Act 22 - 2012 Transfers of Investors to Puerto Rico	Credit for purchases of products manufactured in Puerto Rico	Credit for investment in film industry development (Act 27-2011).	Act 20 - 2012, Export Services
Purpose of program	The Act establishes the requirements to qualify the "bona fide"farmers and exempt them from the payment of all kinds of taxes on personal and real property, municipal license tax, taxes, income taxes, excise taxes and all municipal and/or state taxes or fees.	To attract new residents to Puerto Rico by providing a total exemption from Puerto Rico income taxes on all passive income realized or accrued after such individuals become bona fide residents of Puerto Rico.	Incentivize the manufacturing industry and local suppliers	To encourage the use of the state as a site for filming, for the digital production of films, and to develop and sustain the workforce and infrastructure for film, digital media, and entertainment production.	Act to promote the exportation of services, provides attractive tax incentives for companies that establish and expand their export services businesses in the island. In addition, the law promotes investments on research and development and initiatives from the academic and private sectors by granting credits and exemptions for these activities.
Abated tax	CorporateTax	CorporateTax	CorporateTax	Individual Tax	Individual Tax
Authorizing statute/ordinance	Act 225 - 1995	Act 22 -2012	Section 5(a)(1), Act 73 - 2008	Section 7.3 Act 27-2011	Act 20-2012
Eligibility requirement	Certification of Agricultural Bonafide Operation by the Department of Agriculture	Relocation to Puerto Rico and a full-time resident as defined by law.	Exempt business that has a decree granted under this Act or under the previous incentive laws, must buy products manufactured in Puerto Rico, including components and accessories.	Investment certified by the Auditor as disbursed in relation to Production Expenses of Puerto Rico, not including payments made to Non-Resident Talent	Relocate operations to Puerto Rico
Type of commitment made by the recipient of the abated tax	50% or more of its income must derive from the agriculture industry.	Transfer operations to Puerto Rico.	Purchase raw materials from local businesses.	Invest in the development of the local film industry.	Maintain operations and export services operating from Puerto Rico
How tax is reduced	Reduction of Tax	Reduction of Tax	Twenty-five percent (25%) of the purchases of such products, during the taxable year in which the referred credit is taken, up to a maximum of fifty percent (50%) of the aforementioned contribution.	Reduction of Tax	Reduction of tax rate
Determination of abated tax	Abated tax percentage determined by law	Abated tax percentage determined by law	Abated tax rate established by decree	Abated tax percentage determined by law	Abated tax determined by law and decree approval
Recapture agreement	none	none	none	none	none
Gross dollar amount of reduced tax	$ 10,800,000	$ 311,000,000	$ 30,000,000	$ 41,000,000	$ 226,000,000

(9) Conditionally Allocated Receivables and Future Revenue

(a) COFINA Revenues

Prior to the enactment of Act No. 241-2018 and confirmation of the COFINA Plan of Adjustment in February 2019, Act No. 91-2006 established the Dedicated Sales Tax Fund, a special revenue fund held by COFINA. Act No. 91-2006 required that the greater of the following amounts be deposited in the Dedicated Sales Tax Fund each fiscal year for the payment of COFINA bonds: (i) a minimum fixed amount, referred to as the Pledged Sales Tax Base Amount and (ii) the revenue generated by up to 2.75% of the Commonwealth's sales and use tax. On October 9, 2013, an amendment to Act No. 91-2006 was signed into law which increased from 2.75% to 3.50% the portion of the Pledged Sales Tax Base Amount deposited in the Dedicated Sales Tax Fund.

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment (as discussed in Note 17), which became effective on February 12, 2019. The COFINA Plan of Adjustment together with Act 241-2018 adjusted COFINA's debts, which resulted in COFINA issuing new bonds (the New COFINA Bonds). The COFINA Plan of Adjustment also incorporated a settlement agreement between the Commonwealth and COFINA that, among other things, allocated 53.65% of the original Pledged Sales Tax Base Amount (as defined in the COFINA Plan of Adjustment) to COFINA (the COFINA Revenues) and 46.35% to the Commonwealth, thereby reducing the portion allocated to a segregated fund or funds owned by COFINA into which the COFINA Revenues are deposited (the COFINA Revenues Fund). The New COFINA Bonds issued under the COFINA Plan of Adjustment are secured by a statutory lien on the COFINA Revenues. In addition, the consummation of the COFINA Plan of Adjustment quieted COFINA's title to the COFINA Revenues, definitely resolving as a legal matter all questions of title to those revenues and COFINA's sole and exclusive ownership of them.

The Pledged Sales Tax Base Amount in the fiscal year ended June 30, 2018 amounted to approximately $753 million. For fiscal year 2018, debt service paid by COFINA amounted to approximately to $708.5 million.

(b) PRIFA Allocated Revenue

The following revenue (collectively, the PRIFA Allocated Revenue) has been conditionally allocated by the Commonwealth to PRIFA, subject to the provisions of Article VI, Section 8, of the Commonwealth's Constitution. As further discussed in Note 2, the PRIFA Allocated Revenues are currently being retained by the Commonwealth.

(i) Federal Excise Taxes

Rum manufactured in Puerto Rico is subject to federal excise taxes once exported to the United States; however, such excise taxes are returned by the Internal Revenue Service (IRS) to the Commonwealth. Act No. 44-1988, as amended (the PRIFA Act), conditionally allocates the first $117 million of these federal excise taxes received by the Commonwealth be transferred to PRIFA, a blended component unit of the Commonwealth, each fiscal year. Historically, a portion of this first $117 million of federal excise taxes was used for the repayment of PRIFA's Special Tax Revenue Bonds. Receipt of the federal excise taxes is subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The amount of federal excise taxes to be received by the Commonwealth is currently expected to decrease, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are less than $117 million, the PRIFA Act requires that PRIFA request, and the Director of the Commonwealth OMB include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation sufficient to cover such deficiency. The Legislature, however, is not required to make such appropriation. For the year ended June 30, 2018, the $117 million conditionally allocated by Act No. 44-1988 was not appropriated to PRIFA.

(ii) Petroleum Products Tax

The PRIFA Act and the Puerto Rico Internal Revenue Code of 2011, as amended (the Puerto Rico Code) imposes a petroleum products tax on non-diesel products ($6.25 per barrel initially) and allocates the revenue therefrom to PRIFA to be used for payment of certain of its bonds and notes, in particular, the Dedicated Tax Fund Revenue Bond Anticipation Notes (the PRIFA BANs) issued on March 16, 2015 to redeem certain PRHTA BANs. For fiscal year 2018, no payments were made.

(c) PRHTA Allocated Revenue

The following revenues (collectively, the PRHTA Allocated Revenues) have been conditionally allocated by the Commonwealth to PRHTA, subject to the provisions of Article VI, Section 8 of the Commonwealth's Constitution. As further discussed in Note 2, prior to May 3, 2017, the PRHTA Allocated Revenues were retained by the Commonwealth pursuant to Article VI, Section 8 of the Commonwealth's Constitution. Subsequent to the filing of the Commonwealth's Title III case on May 3, 2017, the PRHTA Allocated Revenues have been retained by the Commonwealth for numerous reasons, including application of the automatic stay under Title III of PROMESA.

(i) Gasoline and Gas Oil Taxes

The Puerto Rico Code currently imposes a $0.16 per gallon tax on gasoline and a $0.04 per gallon tax on gas oil and diesel oil. By law, the Commonwealth has conditionally allocated the entire $0.16 tax on gasoline and $0.04 tax on gas oil and diesel oil to PRHTA as a source of revenue.

(ii) License Fees

Under Act No. 22-2000, as amended, known as the "Vehicle and Traffic Law," the Commonwealth imposes annual license fees on various classes of motor vehicles. Fifteen dollars ($15) of each such annual license fee was conditionally allocated to PRHTA to be used as a source of revenue. Act No. 30-2013 conditionally assigned the remaining twenty-five dollars ($25) of each such annual license fee to PRHTA.

(iii) Petroleum Products Tax

The Puerto Rico Code also allocates to PRHTA $9.50 per barrel or fraction thereof of petroleum products excise tax (which include crude oil, unfinished oil, and derivative products). The tax is imposed on any petroleum product introduced, consumed, sold, or transferred in the Commonwealth.

(iv) Cigarette Tax

A portion of the proceeds of the cigarette tax imposed by Section 3020.05 of the Puerto Rico Code (approximately $20 million) has been conditionally allocated to PRHTA.

(d) PRCCDA Allocated Revenue

Article 24 of Act No. 272-2003, as amended, imposes a hotel occupancy tax on all hotels and motel accommodations on the island (the Hotel Occupancy Tax). A portion of the proceeds of the Hotel Occupancy Tax (the PRCCDA Allocated Revenue) has been conditionally allocated to PRCCDA for the payment of PRCCDA's bonds, subject to the provisions of Article VI, Section 8 of the Commonwealth's Constitution. As further discussed in Note 2, the PRCCDA Allocated Revenues are currently being retained by the Commonwealth.

(e) PRMBA Allocated Revenue

A portion of the proceeds of the cigarette tax imposed by Section 3020.05 of the Puerto Rico Code (the PRMBA Allocated Revenue) has been conditionally allocated to PRMBA for the payment of certain PRMBA debt obligations, subject to the provisions of Article VI, Section 8, of the Commonwealth's Constitution. As further discussed in Note 2, the PRMBA Allocated Revenues are currently being retained by the Commonwealth.

(f) The Children's Trust Revenue

The Children's Trust is a public trust ascribed to GDB, created pursuant to Act No. 173-1999. Through Act No. 173-1999, the Commonwealth conditionally allocated and transferred to the Children's Trust all of its rights, title, and interest in a settlement agreement entered into by and among the Commonwealth, 46 states and several cigarette manufacturers (the Tobacco Settlement Agreement), including the Commonwealth's right to receive certain annual payments from such cigarette manufacturers (the TSRs). The TSRs, otherwise deliverable to the General Fund, were conditionally allocated to the Children's Trust in consideration of the issuance of bonds by the Children's Trust and the application of the proceeds thereof to fund certain social programs.

(g) Executive Order OE–2015-046 (Clawback)

On December 1, 2015, Executive Order No. 46 was signed, which ordered the Secretary of the DOT to retain certain revenues in light of revised revenue estimates for fiscal year 2018 and the Commonwealth's deteriorating liquidity situation. Pursuant to Executive Order No. 46, certain available resources of the Commonwealth conditionally allocated to PRIFA, PRHTA, PRMBA and PRCCDA to pay debt service on their obligations and to provide operational support continue to be retained by the Commonwealth (commonly referred to as the "clawback"), pursuant to Article VI, Section 8 of the Constitution of the

Commonwealth and the statutory provisions pursuant to which such revenues were assigned to the applicable public corporations.

(10) Interfund and Intraentity Activity

Interfund receivables and payables at June 30, 2018 are summarized as follows (in thousands):

Receivable Fund	Payable Fund		
Nonmajor governmental	COFINA Debt Service	$	151,615
ERS	COFINA Debt Service		149,706
PRMeSA	General		59,006
General	Nonmajor governmental		45,549
Nonmajor governmental	General		16,346
Nonmajor proprietary	General		15,149
PRHIA	General		8,645
General	Unemployment insurance		6,139
General	PRMeSA		5,700
Nonmajor proprietary	Nonmajor governmental		4,022
		$	461,877

Transfers from (to) other funds for the year ended June 30, 2018 are summarized as follows (in thousands):

Transferee fund	Transferor fund		
PRHIA (a)	General	$	560,343
Nonmajor governmental (b)	General		387,585
ERS (c)	General		377,370
General (d)	Nonmajor governmental		200,000
General (e)	ERS		190,480
General (f)	Nonmajor proprietary		155,822
PRMeSA (g)	General		84,182
General (h)	Unemployment Insurance		42,602
ERS (i)	COFINA Debt Service		10,298
Nonmajor governmental (j)	COFINA Debt Service		10,053
Nonmajor governmental (k)	ERS		1,797
Nonmajor proprietary (l)	General		830
COFINA Debt Service (m)	COFINA Special Revenue		168
		$	2,021,530

The principal purposes of the interfund transfers are to (in thousands):

(a) Transfer of $560,343 from the General Fund to PRHIA to provide funds to cover operational expenditures.

(b) Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by the PBA, a blended component unit ($117,435); ($77,330) related to the revenues received from the Tobacco Settlement Agreement managed by The Children's Trust, a blended component unit; ($727) to PRIFA, a blended component unit, for the payment of debt and capital projects; ($23,000) to UPRCCC, ($89,790) to FAFAA, ($103) to SCPT and ($248) to PA, blended component units, to provide funds to cover operational expenditures; ($1,462) to the Capital Projects Fund to cover capital related expenditures and ($69,278) to TRS and ($8,212) JRS, blended component units, to write-off interfund loans not expected to be repaid to the General Fund.

(c) Transfer of $145,010 from the General Fund to ERS, a blended component unit, to repay employer contributions owed to the pension plan and of $232,360 to write-off interfund loans not expected to be repaid by ERS to the General Fund.

(d) Transfer of $200,000 from TRS, a blended component unit, to the General Fund to provide resources for the payment of pension benefits.

(e) Transfer of $190,480 from ERS, a blended component unit, to the General Fund to provide resources for the payment of pension benefits.

(f) Transfer from the Lotteries, a nonmajor proprietary fund, to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation ($140,224); related to the distribution of surplus cash to the General Fund from Disability Insurance Fund ($7,917) and to reimburse the General Fund for expenses assistance provided on emergency calls services from 9-1-1 Services ($7,681).

(g) Transfer of $84,182 from the General Fund to PRMeSA, a major proprietary fund, to make funds available for debt service payments, capital projects and operational expenditures.

(h) Transfer of $42,602 from the Unemployment Insurance Fund related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses.

(i) Recognize as transfers of $10,298, the interest income earned by ERS, a blended component unit, on its investment on bonds issued by COFINA, another blended component unit, where an interest expense is incurred by the same amount.

(j) Recognize as transfers of $10,053, the interest income earned by PRIFA, a blended component unit, on its investment on bonds issued by COFINA, another blended component unit, where an interest expense is incurred by the same amount.

(k) Transfer of $1,797 recognized by JRS, a blended component unit, to write-off interfund loans not expected to be repaid to ERS.

(l) Transfer from the General Fund to the PWPCR Fund, nonmajor proprietary fund, to provide local matching funds ($830).

(m) Transfer of $168 from the COFINA Special Revenue Fund to the COFINA Debt Service Fund to be transferred to the General Fund to make funds available for debt service payments.

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Amounts due to the Primary Government from discretely presented component units were as follows (in thousands):

Payable entity		Receivable entity: General fund	ERS special revenue fund	PRMeSA	Nonmajor governmental	Nonmajor proprietary	Total due from component units
Major component units:							
PRASA	$	77,794	8,507	—	—	580,275	666,576
PREPA		317,312	—	—	—	—	317,312
GDB		9,210	—	—	1,293	—	10,503
PRHTA		2,778	—	—	—	—	2,778
SIFC		50,082	28,735	—	—	—	78,817
Nonmajor component units		142,564	120,655	1,121	29,018	—	293,358
Subtotal due from component units		599,740	157,897	1,121	30,311	580,275	1,369,344
Allowance for uncollectible balances		(74,516)	(157,897)	—	(29,018)	(123,597)	(385,028)
	$	525,224	—	1,121	1,293	456,678	984,316

The amount owed by PRASA of approximately $580.3 million represents construction loans granted by the PWPCRF and the PRSDWTRLF, nonmajor proprietary funds, to finance the construction of capital assets for PRASA. PRASA has not made the required payments under the debt agreement related to this debt (see Note 2).

Amounts due to discretely presented component units from the Primary Government were as follows (in thousands):

Receivable entity		Payable entity: General fund	Nonmajor governmental funds	PRMeSA	Total due to component units	Allowance for uncollectible balances	Total due to component units (net)
Major component units:							
PREPA	$	17,071	—	32,847	49,918	(27,282)	22,636
PRASA		22,584	—	3,706	26,290	(19,904)	6,386
UPR		23,089	8,125	46,171	77,385	(71,759)	5,626
PRHTA		11,553	—	—	11,553	(1,553)	10,000
Nonmajor component units		52,769	—	—	52,769	(21,991)	30,778
Total due to component units	$	127,066	8,125	82,724	217,915	(142,489)	75,426

Amounts due from (to) discretely presented component units were as follows (in thousands):

	Receivable entity Major component units						
Payable entity	**GDB**	**PRHTA**	**PREPA**	**PRASA**	**UPR**	**Nonmajor component units**	**Total due to component units**
Major component units:							
PRHTA	$ 1,933,698	—	38,179	—	—	9,017	1,980,894
UPR	85,701	—	13,242	—	—	—	98,943
PRASA	65,550	—	52,594	—	—	—	118,144
PREPA	35,846	1,404	—	4,012	—	2,900	44,162
SIFC	—	—	1,603	—	—	—	1,603
Nonmajor component units	778,546	32,320	40,277	17,682	8,058	57,922	934,805
Subtotal due from component units	2,899,341	33,724	145,895	21,694	8,058	69,839	3,178,551
Allowance for uncollectible balances	(2,824,808)	(33,724)	(45,403)	(15,532)	(2,381)	(56,305)	(2,978,153)
Total due from component units (net)	$ 74,533	—	100,492	6,162	5,677	13,534	200,398

The amount due from discretely presented component units presented by GDB of approximately $2.9 billion (before allowance for uncollectible accounts) represents loan balances owed to GDB by other Commonwealth's discretely presented component units. The rest of the loans receivable reported by the GDB consists of the following (in thousands):

Primary government – governmental activities	$ 2,512,655
Primary government – business-type activities	486,559
Other governmental entities and municipalities	2,069,387
Private sector, net of allowance for loan losses	185,174
Total loans receivable reported by GDB	5,253,775
Less allowance for public sector loans	(3,000,011)
	$ 2,253,764

The loans to the Primary Government are presented by the Commonwealth within notes payable in the statement of net position.

Expenses of the Primary Government include capital and operational contributions made by the Primary Government to the discretely presented component units during the year ended June 30, 2018 were as follows (in thousands):

UPR	$ 668,821
PRHTA	276,087
Nonmajor components units	195,352
Total contributions made by primary government to component units	$ 1,140,260

(11) Capital Assets

Capital assets activity for the year ended June 30, 2018 was as follows (in thousands):

Primary Government

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Governmental activities:				
Land and other nondepreciable assets:				
Land	$ 933,883	2,090	1,403	934,570
Construction in progress	1,094,488	99,765	56,408	1,137,845
Total land and other nondepreciable assets	2,028,371	101,855	57,811	2,072,415
Buildings and building improvements	10,328,570	58,814	194,559	10,192,825
Equipment, furniture, fixtures, vehicles, and software	847,764	47,815	4,916	890,663
Infrastructure	612,940	2,284	—	615,224
Total other capital assets, being depreciated and amortized	11,789,274	108,913	199,475	11,698,712
Less accumulated depreciation and amortization for:				
Buildings and building improvements	4,442,644	258,880	24,902	4,676,622
Equipment, furniture, fixtures, vehicles, and software	670,612	38,312	4,015	704,909
Infrastructure	205,121	13,109	—	218,230
Total accumulated depreciation and amortization	5,318,377	310,301	28,917	5,599,761
Total other capital assets, net of depreciation and amortization	6,470,897	(201,388)	170,558	6,098,951
Governmental activities capital assets, net	$ 8,499,268	(99,533)	228,369	8,171,366

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	Beginning balance (as restated)	Increases	Decreases	Ending balance
Business-type activities:				
Land and other nondepreciable assets:				
Land	$ 36,005	—	—	36,005
Total capital assets, not being depreciated	36,005	—	—	36,005
Building and building improvements	112,008	319	—	112,327
Equipment	95,519	8,035	162	103,392
Total other capital assets being depreciated and amortized	207,527	8,354	162	215,719
Less accumulated depreciation and amortization for:				
Building and building improvements	71,476	2,087	—	73,563
Equipment	82,410	3,709	123	85,996
Total accumulated depreciation and amortization	153,886	5,796	123	159,559
Total business-type activities other capital assets, net of depreciation and amortization	53,641	2,558	39	56,160
Total business-type activities capital assets, net	$ 89,646	2,558	39	92,165

Depreciation and amortization expense were charged to functions/programs of the Primary Government for the year ended June 30, 2018 as follows (in thousands):

Governmental activities:	
General government	$ 105,088
Public safety	33,527
Health	15,903
Public housing and welfare	113,083
Education	24,877
Economic development	17,823
Total depreciation and amortization expense – governmental activities	$ 310,301

The Commonwealth annually performs an impairment analysis of its capital assets in accordance with the provisions of GASB Statement No. 42. The current year's analysis identified approximately $135.2 million of impaired assets, that was recognized by the Governmental Activities in the Statement of Activities for the year ended June 30, 2018.

General infrastructure assets include approximately $427 million representing costs of assets transferred to the DNER of the Commonwealth (at cost) in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues River and Bucana River Projects (the Cerrillos Dam and Reservoir Project) by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within Governmental Activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to approximately $214 million. On March 21, 2014, the debt agreement with the U.S. Army Corps of Engineers was modified to reduce the interest rate and the annual payment for the remaining term of the debt. (see Note 13(o)).

On February 24, 2012, PRIFA, a blended component unit, entered into an Assistance Agreement with the Puerto Rico Department of Justice (PRDOJ) and GDB to acquire, refurbish, and operate a property to be used for the relocation of the PRDOJ's main offices. In connection with the Assistance Agreement, GDB provided a $35 million credit facility to PRIFA to undertake the acquisition and administration of this property and manage the initial phase of the rehabilitation and refurbishment of the property. On March 8, 2012, PRIFA acquired the property for approximately $27 million. The relocation of the PRDOJ's main offices never materialized but PRIFA has been working with gradually securing lease agreements with other governmental entities and third parties. The credit facility is secured by a mortgage lien on the property and is payable from future appropriations from the Commonwealth and from the assignment of current and any future lease agreement.

PRIFA has also issued certain bonds and notes to finance the construction of certain capital projects for the benefit of PRASA, municipalities and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, the municipalities and other agencies in their respective operations. The capital projects, including the land acquired, are included as part of PRIFA's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met. During the year ended June 30, 2018, PRIFA incurred approximately $1.1 million in construction costs for the benefit of other instrumentalities of the Commonwealth.

In October 2010, PRIFA entered into a memorandum of understanding with PPPA, PBA, DOE, DTPW and GDB for the administration of the Schools for the 21st Century Program (the 21st Century Program). There was no construction in process at June 30, 2018 related to this program. The program consists of remodeling over 100 schools throughout Puerto Rico. To finance the program, the PBA issued government facilities revenue bonds in the amount of $878 million during the fiscal year ended June 30, 2012 of which $4.3 million is deposited in construction funds within PBA's capital project fund at June 30, 2018.

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Discretely Presented Component Units

Capital assets activity for discretely presented component units for the year ended June 30, 2018 is as follows (in thousands):

		Beginning balance (as restated)	Increases	Decreases	Ending balance
Land and other nondepreciable assets:					
Land	$	2,234,548	43	4,093	2,230,498
Construction in progress		907,960	263,118	220,672	950,406
Total capital assets not being depreciated/ amortized		3,142,508	263,161	224,765	3,180,904
Depreciable assets:					
Buildings and building improvements		1,681,592	73,951	77,925	1,677,618
Equipment, furniture, fixtures, vehicles, and software		2,280,215	54,320	154,352	2,180,183
Infrastructure		41,499,362	1,768,907	2,050,279	41,217,990
Total other capital assets, being depreciated/ amortized		45,461,169	1,897,178	2,282,556	45,075,791
Less accumulated depreciation/ amortization for:					
Buildings and building improvements		4,032,138	230,490	24,433	4,238,195
Equipment, furniture, fixtures, vehicles, and software		1,052,335	72,988	13,876	1,111,447
Infrastructure		17,772,517	822,266	697,202	17,897,581
Total accumulated depreciation/ amortization		22,856,990	1,125,744	735,511	23,247,223
Total other capital assets, net of depreciation and amortization		22,604,179	771,434	1,547,045	21,828,568
Nonmajor component units		3,270,821	(186,326)	(67,080)	3,151,575
Capital assets (net)	$	29,017,508	848,269	1,704,730	28,161,047

(12) Short-term- Obligations

Short-term- obligations at June 30, 2018 and changes for the year then ended were as follows (in thousands):

	Balance at June 30, 2017	Debt issued	Debt paid	Balance at June 30, 2018
Governmental activities:				
Notes payable to GDB	$ 1,700	—	—	1,700
Tax revenue anticipation notes	400,000	—	—	400,000
	$ 401,700	—	—	401,700

(a) *Notes Payable to GDB*

The Commonwealth has entered into a short-term line of credit agreements with GDB (all within Governmental Activities) consisting of the following at June 30, 2018 (in thousands):

Agency	Purpose	Interest rate	Line of credit	Outstanding balance
PA	To finance terms of consent decree agreement	150 bp over PRIME with floor of 6% and ceiling of 12%	$ 1,700	1,700
			$ 1,700	1,700

(b) *Tax Revenue Anticipation Notes*

Act No. 1-1987, authorizes the Secretary of the DOT to issue notes to either private or governmental institutions, in anticipation of taxes and revenue (Tax Revenue Anticipation Notes or TRANs) as an alternate means of providing liquidity to cover any temporary cash shortages projected for a fiscal year. Act No. 139-2005, amended Section 2(g) of Act No. 1-1987 to provide that the total principal amount of notes issued under the provisions of Act No. 1-1987 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenue of the General Fund for the fiscal year preceding the fiscal year in which the notes are issued or $ 1.5 billion.

On September 6, 2016, the Commonwealth renewed the “intra governmental” TRANs for fiscal year 2017, in the aggregate principal amount of $400 million with the SIFC, AACA and the Disability Insurance Fund, also at the interest rate of 6%. On April 28, 2017, the Commonwealth acknowledged that it would be unable to pay the principal and interest payments on the TRANs notes as they become due and entered into a forbearance agreement with SIFC, AACA, and Disability Insurance Fund. The forbearance period expired on June 30, 2018. The repayment has not been made and the forbearance period has not been extended.

(13) Long-term- Obligations

Primary Government

Long-term obligations at June 30, 2018 and changes for the year then ended were as follows (in thousands):

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	Balance at June 30, 2017 as restated	Debt issued	Debt paid	Other increases	Other (decreases)	Balance at June 30, 2018	Due within one year
Governmental activities:							
Commonwealth appropriation bonds $	569,746	—	—	—	(354)	569,392	90,436
General obligation and revenue bonds	40,089,683	—	(52,325)	406,025	(31,178)	40,412,205	1,662,648
Bond purchase agreement with GDB	225,534	—	—	—	—	225,534	—
Notes payable to component units:							
GDB	2,285,611	—	(190)	—	—	2,285,421	468,630
Other	102,000	—	—	—	—	102,000	—
Note payable to financial institution	23,764	—	—	—	—	23,764	14,258
Liability under guaranteed obligation	374,596	—	—	17,747	—	392,343	—
Capital leases	335,614	13,234	(11,512)	—	(45,603)	291,733	9,573
Compensated absences	557,001	—	—	—	(65,335)	491,666	193,372
Voluntary termination benefits payable	803,020	—	—	—	(97,893)	705,127	92,763
Net pension liability	42,544,991	—	—	—	(3,788,204)	38,756,787	663,584
Total other postemployment benefit liability	1,526,561	—	—	—	(276,683)	1,249,878	92,134
Other long-term liabilities	1,867,093	61,872	(150,081)	—	(94,221)	1,684,663	204,467
Total governmental activities	91,305,214	75,106	(214,108)	423,772	(4,399,471)	87,190,513	3,491,865
Business-type activities:							
Notes payable to GDB	486,559	—	—	—	—	486,559	82,667
Compensated absences	18,925	—	—	9,451	(12,209)	16,167	9,475
Obligation for unpaid lottery prizes	147,617	—	—	392,973	(375,966)	164,624	91,612
Voluntary termination benefits	7,192	—	—	619	(1,631)	6,180	1,384
Net pension liability	809,666	—	—	42,539	(32,927)	819,278	—
Total other postemployment benefit liability	21,451	—	—	—	(4,249)	17,202	1,356
Liability for unemployment, disability and health insurance	90,213	—	—	1,215,447	(1,130,473)	175,187	175,187
Other long-term liabilities	101,771	—	—	2,035	(99,578)	4,228	2,086
Total business-type activities	1,683,394	—	—	1,663,064	(1,657,033)	1,689,425	363,767
Total primary government $	92,988,608	75,106	(214,108)	2,086,836	(6,056,504)	88,879,938	3,855,632

Each of the long-term obligations described in this section do not take into account the impact of the Title III cases on the priority or timing of payments that may be owed to any creditors of the Commonwealth, its instrumentalities, or its public corporations. The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceeding. Accordingly, the effects of the PROMESA Title III cases or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

The principal balance of general obligation and revenue bonds paid reported as expenditures in the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the table above. The balance paid includes principal paid the first of July of each year, which was accrued at June 30 of prior year, as a fund liability. U.S. GAAP allows accrual of debt service liabilities and expenditures if a government has provided financial resources to a debt service fund for payment of liabilities that will mature within a month in the following fiscal year. As a result of the economic and liquidity challenges that the Commonwealth faced during the last three fiscal years, the Commonwealth had no funds available at June 30, 2018 for debt service payment due on July 1, 2018. Based on the above,

approximately $1.5 billion related to interest was accrued as a fund liability at June 30, 2018 and $843 million of principal was accrued as a fund liability at June 30, 2018.

Please refer to Note 13(e) and Note 14(a) for detailed information regarding the liability under guaranteed obligation. The remaining balance of the other increases (decreases) in bonds and notes consists of capitalization of interest on capital appreciation bonds (increases) and amortization of premiums (decreases) and accretion of discounts (increases) on bonds. These adjustments did not require any source or use of cash.

Accrual adjustments for fiscal year 2018 were made to reconcile various obligations with the new estimated balances at June 30, 2018, and other decreases resulting from payments on these obligations made during the fiscal year. These obligations include compensated absences, net pension liabilities, other postemployment benefit obligation, voluntary termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits. These payments, as pertaining to Governmental Activities, are included not as principal payments in the statement of revenue, expenditures, and changes in fund balances (deficit) – governmental funds, but as expenses within their corresponding functions.

(a) Debt Limitation and Arbitrage

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth should not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee so long as the Commonwealth is in compliance with this 15% limitation at the time of issuance of such guaranteed debt. During the period ended June 30, 2018, no direct obligations were issued by the Commonwealth.

Litigation regarding whether certain bond issuances of the Commonwealth and PBA violated the Commonwealth's constitutional debt limitation is ongoing in the Commonwealth's Title III case. For additional information regarding the Commonwealth's Title III case, refer to Note 3. For additional information regarding the ongoing litigation related to the Commonwealth's Title III case (including litigation commenced by the Oversight Board against certain of the Commonwealth's general obligation bondholders), refer to Note 17.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, requiring a rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt- debt issued. Excess earnings must be rebated every five-years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2018.

(b) Bonds Payable

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligation bonds and debt guaranteed by the Commonwealth. The full faith, credit, and taxing power of the Commonwealth is

irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds. On April 6, 2016, the Governor signed into law the Moratorium Act. For additional information on the Moratorium Act, refer to Note 3. For additional information on litigation contingencies related to the Moratorium Act, refer to Note 17. Developments in the Title III cases, as discussed in Note 3, have affected the application of the Moratorium Act and may affect the priorities any party claims with respect to its right to debt repayment.

Act No. 83-1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exempt from taxation. The levy is made by CRIM, a municipal corporation, not a discretely presented component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected by the Commonwealth to pay debt service on general obligation bonds. During the year ended June 30, 2018, the total revenue reported by the Commonwealth amounted to approximately $95 million which are included in the debt service fund.

For financial reporting purposes, the outstanding amount of bonds represents the total principal amount outstanding, plus unamortized premiums and interest accreted on capital appreciation bonds, less unamortized discount. Bonds payable outstanding at June 30, 2018, including accreted interest on capital appreciation bonds, were as follows (in thousands):

		General obligation bonds	Revenue bonds	Total
Term bonds payable through 2059; interest payable monthly or semiannually at rates varying from 3.00% to 8.00%	$	8,230,823	10,856,385	19,087,208
Serial bonds payable through 2042; interest payable monthly or semiannually at rates varying from 3.00% to 6.75%		4,191,120	1,578,779	5,769,899
Fixed rate bonds payable through 2057; interest payable at rates varying from 3.38% to 6.50%		—	6,201,831	6,201,831
Capital appreciation bonds payable through 2059; no interest rate, yield ranging from 4.93% to 7.48%. (1)		126,664	6,323,688	6,450,352
Special Tax Revenue Bonds payable through 2045; interest payable or accreted monthly and semiannually at rates varying from 4.00% to 8.25%		—	1,897,957	1,897,957
Mental Health Infrastructure Revenue Bonds payable through 2038; interest payable semiannually at rates varying from 5.60% to 6.50%		—	34,800	34,800
The Children’s Trust Fund Tobacco Settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 5.38% to 8.38%		—	1,465,415	1,465,415

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2018

	General obligation bonds	Revenue bonds	Total
Capital Fund Program Bonds, maturing in various dates payable through 2025; interest payable semiannually at rates varying from 2.00% to 5.00%	—	105,315	105,315
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable quarterly (1.74% at June 30, 2018)	—	136,000	136,000
Total	12,548,607	28,600,170	41,148,777
Unamortized premium	37,413	152,299	189,712
Unamortized discount	(246,181)	(145,838)	(392,019)
Subtotal bonds payable	12,339,839	28,606,631	40,946,470
Elimination entry COFINA bonds issued to PRIFA and ERS	—	(534,265)	(534,265)
Total bonds payable	$ 12,339,839	28,072,366	40,412,205

(1) Revenue bonds include $452 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2025; August 1, 2029; August 1, 2031: and August 1, 2033.

As of June 30, 2018, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (in thousands):

Year ending June 30	Principal	Interest	Interest subsidy (1)	Total
2019	$ 1,662,648	4,521,409	3,835	6,187,892
2020	603,500	1,875,363	3,835	2,482,698
2021	677,940	1,859,307	3,835	2,541,082
2022	672,590	1,831,792	3,835	2,508,217
2023	761,980	1,794,004	3,835	2,559,819
2024-2028	4,690,955	8,261,502	19,172	12,971,629
2029-2033	8,928,338	6,981,235	19,172	15,928,745
2034-2038	10,072,060	4,497,027	19,172	14,588,259
2039-2043	11,456,595	2,074,759	19,172	13,550,526
2044-2048	7,329,215	630,497	959	7,960,671
2049-2053	5,808,191	560,933	—	6,369,124
2054-2058	6,009,420	486,597	—	6,496,017
2059	8,855,913	14,401	—	8,870,314
Total	67,529,345	$ 35,388,826	96,822	103,014,993
Less unaccreted interest	(26,380,568)			
Plus unamortized premium	189,712			
Less unamortized discount	(392,019)			
Subtotal	40,946,470			
Elimination of COFINA bonds issued to PRIFA and ERS	(534,265)			
Total	$ 40,412,205			

The above schedule has been presented in accordance with original terms of the bonds payable and does not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceeding. Accordingly, the effects of the PROMESA Title III or any other debt

restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

(1) Sales Tax Revenue Bonds, First Subordinate Series 2010D and 2010E were issued as Build America Bonds. COFINA will receive a subsidy payment from the federal government equal to 35% and 45%, respectively, of the amount of each interest payment. On June 24, 2013, the IRS sent notice that 8.7% of the subsidy payment on the Build America Bonds will be sequestered due to adjustments of the federal government budget.

On March 16, 2015, PRIFA issued $245.9 million of bond anticipation notes (disclosed as Special Tax Revenue Bonds) payable from the increase in the petroleum products tax imposed by Act No. 1-2015 (the PRIFA BANs), the proceeds of which were used to refinance certain outstanding PRHTA bond anticipation notes and pay-related expenses. The PRIFA BANs were originally expected to be refinanced through a long-term bond issuance by PRIFA. However, this proposed transaction has been abandoned. The PRIFA BANs had a maturity date of May 1, 2017 (which was not met), with an interest rate of 8.25% payable monthly on the first business day of each month, commencing on April 1, 2015. The aforementioned revenues that support the payment of the PRIFA BANs could instead be applied to pay the Commonwealth's general obligation debt if its available resources proved insufficient to cover all approved appropriations. The PRIFA BANs are guaranteed by the good faith, credit and taxing power of the Commonwealth (Refer to Note 14(a)). On June 24, 2016, the Governor signed an executive order, EO 2016 027, which suspended all obligations to transfer money to PRIFA for the purpose of making payments on PRIFA BANs.

The following table presents Governmental Activities debt service payments on certain revenue variable rate bonds and the net payments on associated hedging derivative instruments (see Note 21) as of June 30, 2018 (all pertaining to COFINA). Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments as of June 30, 2018, will remain constant.

	Variable-rate bonds		Hedging derivative instruments,	
	Principal	Interest	net	Total
		(In thousands)		
Year ending June 30:				
2019	$ —	3,418	3,274	6,692
2020	—	3,418	3,274	6,692
2021	—	3,418	3,274	6,692
2022	—	3,418	3,274	6,692
2023		3,418	3,274	6,692
2024-2028	—	17,090	16,366	33,456
2029-2033	—	17,090	16,366	33,456
2034-2038	—	17,090	16,366	33,456
2039-2043	—	17,090	16,366	33,456
2044-2048	—	17,090	16,366	33,456
2049-2053	—	17,090	16,366	33,456
2054-2058	136,000	13,953	13,365	163,318
Total	$ 136,000	133,583	127,931	397,514

The above schedule has been presented in accordance with original terms of the bonds payable and does not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other

debt restructuring proceeding. Accordingly, the effects of the PROMESA Title III cases or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

COFINA's outstanding bonds prior to consummation of the COFINA Plan of Adjustment were payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited was the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2018, was approximately $753 million. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to approximately $1.9 million.

At June 30, 2018, the Pledged Sales Tax Base Amount, by year, was as follows (in thousands):

		Amount
Year ending June 30:		
2019	$	783,197
2020		814,525
2021		847,106
2022		880,990
2023		916,230
2024-2028		5,161,101
2029-2033		6,279,269
2034-2038		7,639,690
2039-2043		9,050,808
2044-2048		9,250,000
2049-2053		9,250,000
2054-2058		9,250,000
Total	$	60,122,916

The above schedule has been presented in accordance with original terms of the bonds payable and does not reflect the effects, of the COFINA Plan of Adjustment as confirmed in COFINA's Title III case. See Note 3 and Note 23 for additional information on the COFINA Plan of Adjustment.

(c) Commonwealth's Department of Housing Partnership Agreement

Vivienda Modernization 1, LLC (the LLC) is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the Partnership), a civil partnership created under the laws of the Commonwealth and pursuant to a related Partnership Agreement. The Partnership was created on August 1, 2008 with the DOH, acting as general partner (the General Partner) and Hudson SLP XL LLC, a Delaware limited liability company (the Special Limited Partner) and Hudson Housing Tax Credit Fund XL LP, a Delaware limited partnership (the Investment Partnership); acting as limited partners (collectively the Limited Partners). The Partnership has been organized to acquire, develop, rehabilitate, own, maintain, and operate thirty-three residential rental housing developments intended for low- and moderate-income tenants. Profits, losses, and tax credits are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any year should be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner, and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses should be allocated to the extent allowable under Section 704(b) of the U.S. Internal Revenue Code.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership (the Initial Projected Equity), subject to adjustment based on the amount of low-income housing credits ultimately allocated to the developments in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2018, the Limited Partners have provided capital contributions totaling approximately $126.6 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling approximately $10 million to the Partnership. Should the Partnership not have sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner must provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner must have no right or obligation to make any other capital contributions. As of June 30, 2018, the General Partner had provided no capital contributions. In addition, the DOH as General Partner must establish the Assurance Reserve Fund at the initial closing in the amount of the initial capital contribution less approximately $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund must be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2018, such reserve was maintained in the Partnership.

On August 7, 2008, the LLC entered into a Master Developer Agreement with the DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects (the Master Developer Agreement). Pursuant to the Master Developer Agreement, the DOH will earn a developer's fee in the amount of approximately $75.1 million for such services. Payment of the developer's fee must be subject to the terms and conditions of Section 6(a) (iv) of the Master Developer Agreement. As of June 30, 2018, approximately $72.9 million was recorded within other accounts receivable in the General Fund related to the Master Development Agreement (including approximately $16.6 million related to the Assurance Reserve Fund).

Additionally, on August 7, 2008, the LLC and the DOH entered into a Purchase and Sale Agreement through which the LLC acquired the surface rights of a property (the Property) and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of approximately $45.9 million and $110 million, respectively, from the DOH. This purchase is subject to certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which require the LLC to rehabilitate or construct on the Property 4,132 residential rental units (the Units or collectively the Development), all of which will receive the benefit of an operating subsidy and Low-income- Housing Tax Credits under Section 42 of the U.S. Internal Revenue Code of 1986, as amended. Eighty-four- (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, the DOH entered into a loan agreement with the LLC in the amount of approximately $102.9 million for the acquisition of the 33 residential rental properties (the deferred purchase price note). The LLC must make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

The following are the terms of the deferred purchase price note: commitment of approximately $102.9 million; interest rate 3.55%; and maturity date later of (i) funding of the last installment of the capital contribution or (ii) August 7, 2013. The note must be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2018, the principal balance outstanding on the deferred purchase price note was approximately $8.8 million and accrued interest was

approximately $2.3 million, and both amounts were recorded within deferred inflow of resources – developer fees in the General Fund.

The Puerto Rico Public Housing Administration (PHA) has entered into an Interagency Agreement dated August 7, 2008, with the DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to PHA as set forth in the Interagency Agreement. The LLC and PHA also intend that the units be developed, operated, and managed so as to assure receipt by the LLC of the aforementioned economic and tax benefits to the full extent available to the LLC.

On June 4, 2015, the DOH along with PHA and McCormack Baron Salazar, Inc. (the Developer), a Missouri corporation acting through its whole-owned subsidiary McCormack Baron Puerto Rico Developer, LLC (the Developer), entered into three Master Development Agreements (MDA) to transform certain developments (redevelopment) through a development strategy. In accordance with the strategy, the Developer prepared an Implementation Plan which was approved by the DOH and the PHA. The three redevelopments were: Las Gladiolas Public Housing Development, Puerta de Tierra Housing Development and José Gautier Benítez Public Housing, which include two projects, a multi-family project and an elderly project.

PHA, the public housing authority for the Commonwealth of Puerto Rico, has submitted, and HUD has approved, a mixed-finance proposal for each of these redevelopments in accordance with Section 35 of the U.S. Housing Act of 1937. The mixed-finance provides for a U.S. Department of Housing and Urban Development (HUD)'s operating subsidy for certain of the units and the use of federal development funds known as capital funds made available for the development and construction.

PHA's housing commitment for the projects is approximately $65 million. The Developer will review and pursue funding sources. Developer shall seek proposals from prospective investors in the Low-Income Housing tax credit allocated to the rental phase of the project.

On June 23, 2016 the DOH entered into a Memorandum of Understanding (the "MOU") with PHA, in which PHA agrees to provide support and assistance to the DOH in furtherance of the PHA's purpose and objectives, as part of this redevelopment strategy. In connection with this MOU, PHA performed the disbursements of funds to the Developer, accounting services and other management assistance related to the redevelopments and the re-occupancy of the projects.

With the approval of HUD, PHA transferred the redevelopment properties to the DOH, so that the same could be redevelop as a mixed-finance projects pursuant to 24 CFR § 905 Subpart F. The DOH in turn entered into leases with the Developer. The term of the leases is for 75 years, but such termination could be advanced to an earlier date by express, written agreement of the parties, or by operation of law. Upon termination of the leases, the improvements and equipment will be automatically transferred in favor of the DOH. The DOH in turn will transfer the projects to PHA.

On September 10, 2015 the DOH entered into a predevelopment loan and advance of funds agreement with the Developer. The DOH used the funds to provide to the Developer funds advances under a predevelopment loan for certain eligible costs to be incurred by the Developer as described in the predevelopment budget, upon approval by HUD.

The PHA agreed to make a loan to Developer in a principal amount of up to 50% of third-party costs incurred by Developer (Developer will pay the other 50%) and for 100% of the predevelopment developer overhead in accordance with the predevelopment budget. The predevelopment loan shall not bear interest and advances will be made by PHA on the DOH's behalf. At June 30, 2018 the account

receivable for advances made to the Developers for predevelopment costs of the projects amounted to $3,837,863.

The principal amount of the predevelopment loan attributable to each of the developments shall mature and be due and payable on the earlier of (a) execution of the development predevelopment loan agreement for each development; (b) upon closing for such development, or (c) the termination of the corresponding master development agreement, as provided in the loan agreement.

The DOH agreed to make available to the Developer, from time to time, as construction of the developments progresses, advances under a non-revolving line of credit facilities. PHA will make available certain funds to the DOH in order to lend the Developer certain permanent loans. Additionally, the Developer will request from other national banking association to lend them certain construction loans. The DOH's housing commitment for the projects is approximately $65 million. The Developer will review and pursue funding sources. The Developer shall seek proposals from prospective investors in the Low-Income Housing tax credit allocated to the rental phase of the project.

On the conversion date and to the extent that the Developer shall have paid in full to the DOH all interest accrued under the construction loan facility, the outstanding principal amount of the advances shall be converted into a term note. The unpaid balances of these obligations shall bear interest from the date of the leasehold mortgage note until full payment thereof, at an annual rate equal to six hundred basis (600) points per annum.

The Developer will request additional funds from other private national banking institutions, as needed.

Once the construction loan facilities are converted into term loans, the loans aggregate unpaid principal amounts, plus any accrued and unpaid interests shall become due and payable on the 75th anniversary of the first day of the month immediately succeeding the closing date; or the date on which an early termination provision under ground lease is exercised by the parties; or the date of occurrence of an event of default. At June 30, 2018 total note receivable from developer and accrued interest receivable amounted to $22,983,842 and $1,519,087, respectively.

(d) Commonwealth Appropriation Bonds

Over the years, GDB, as fiscal agent and a bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units of the Commonwealth in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by PFC, a blended component unit of GDB, which serves only as a conduit for the issuance of the bonds. The Commonwealth has recognized a mirror effect of these refundings by PFC over the years in its own debt in proportion to the portion of the Commonwealth's notes included in such PFC refundings. Also, during more recent years, COFINA, through the issuance of bonds, has been used to repay certain other loans and existing appropriation bonds. COFINA is a blended component unit of the Commonwealth created in 2007 with the capacity to issue bonds to repay or refund advances from GDB, the appropriation bonds referred to above, and other debt obligations, collectively referred to as the extra constitutional debt. There were no new activities of Commonwealth appropriation bonds during fiscal year 2018, other than the annual amortization of corresponding premiums and their related deferred inflows and outflows of resources in the form of deferred refunding gains and losses.

At June 30, 2018, the outstanding balance of the Commonwealth appropriation bonds pertaining to the Primary Government (i.e., excluding the balance pertaining to discretely presented component units), consisted of the following obligations (in thousands):

Act. No. 164 restructuring	$	437,698
PRMSA		131,694
Total Commonwealth appropriation bonds	$	569,392

Act No. 164 Restructuring – On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and component units to refund approximately $2.4 billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was originally executed with Commonwealth appropriation bonds through several bond series issued by PFC during the period between December 2001 and June 2002.

Subsequently, additional refundings (current and advance) and/or redemptions of Act No. 164-2001 restructuring have been executed through PFC and COFINA bond issuances.

Approximately $437.7 million of the Commonwealth appropriation bonds outstanding at June 30, 2018, belong to the Primary Government under Act No. 164-2001, consisting of the PRDOH (health reform financing and other costs), the DOT (originally the fiscal year 2001 deficit financing and the obligation assumed for defective tax liens), and PRIFA, a blended component unit of the Commonwealth. The outstanding balance of Commonwealth appropriation bonds related to Act No. 164-2001 bears interest at rates ranging from 3.10% to 6.50%. Debt service requirements, subject to legislative appropriations, in future years were as follows (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2019	$	90,436	84,514	174,950
2020		23,257	18,421	41,678
2021		24,219	17,382	41,601
2022		25,274	16,248	41,522
2023		26,424	15,010	41,434
2024–2028		113,679	64,856	178,535
2029–2031		132,942	8,648	141,590
Total		436,231	225,079	661,310
Plus unamortized premium		1,467		
Total	$	437,698		

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceeding. Accordingly, the effects of the PROMESA Title III or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

PRMSA – A promissory note payable owed by PRMSA to GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds, 2003 Series B and 2004 Series B were issued to refund this liability, which were refunded most recently in June 2012 with the issuance of PFC 2012 Series A bonds. The bond balance bears interest at a variable rate ranging from 3.10% to 5.35%. Debt service requirements in future years were as follows (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2019	$	—	27,349	27,349
2020		—	6,837	6,837
2021		—	6,837	6,837
2022		—	6,837	6,837
2023		—	6,837	6,837
2024–2028		83,384	19,524	102,908
2029–2032		48,310	8,185	56,495
Total	$	131,694	82,406	214,100

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceeding. Accordingly, the effects of the PROMESA Title III or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

(e) Bond Purchase Agreement with GDB

At various times during fiscal years ending in 2005 and 2006, the PA, a blended component unit of the Commonwealth, entered into bond purchase agreements with the GDB, whereby the GDB agreed to disburse to the PA from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). These bonds are guaranteed by the Commonwealth by Act No. 409-2004, which authorized the issuance of these financing arrangements. The Commonwealth had been paying for debt service on these bonds under its guarantee pursuant to Act No 409-2004. For additional detail, refer to Note 14(a).

The proceeds of the bonds were used to finance the cost of development and construction of the PA facilities. These bonds, having an original maturity of January 2015, were refinanced on December 31, 2014 into one single bond for a period of 30 years, with the first payment of principal and interest to commence on August 1, 2015, with interest rates based on the rates borne by the general obligation of the Commonwealth. These rates should be revised on a quarterly basis provided, however, that the interest should never be less than 7% nor greater than 12%. The aggregate outstanding principal balance of the bond principal amount shall be payable in full on January 1, 2045. The principal and interest on the refinanced bond continues to be covered by the guarantee of the Commonwealth. As of June 30, 2018, the principal outstanding on the Bond purchase agreement amounted to approximately $225.5 million.

The PA debt may be paid with any of the following: (i) a long-term bond issuance, once the projects are completed or (ii) legislative appropriations, as established by Act No. 409-2004, honoring the agreement referred to above.

Act No. 409-2004, as amended, is silent as to whether there are arrangements established for recovering payments from PA for guarantee payments made; however, there is no intention from the Commonwealth to request a recovery of any such payments.

(f) Advance Refunding, Defeasance and Refunding of Commonwealth Bonds

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. For the year ended June 30, 2018 the Commonwealth had no defeased obligations.

PBA, a blended component unit, has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net position. As of June 30, 2018, approximately $659.9 million of PBA's bonds are considered defeased.

During prior years, COFINA, a blended component unit, issued certain refunding bonds, the proceeds of which were placed in an irrevocable trust to provide for all future debt service payments on the refunded COFINA Series 2009A and 2009B bonds. The outstanding balance of the advance refunded bonds was approximately $31.7 million at June 30, 2018.

(g) Notes Payable to GDB, Other Discretely Presented Component Units and Financial Institution

The Commonwealth financed certain long-term liabilities through GDB and other discretely presented component units, within both Governmental and Business-type activities. The outstanding balance at June 30, 2018 on the financing provided by GDB and other discretely presented component units presented within notes payable in the statement of net position-Governmental Activities, comprises the following (in thousands):

Notes payable to GDB:		
DOT	$	761,212
SCPT		345,841
PROMB		265,471
PBA		182,160
DOE		106,308
DTPW		82,870
Correction Administration		82,489
UPRCCC		120,482
DOA		65,225
EQB		2,225
PRDOJ		49,846
PRDOH		44,158
PRIFA		49,338
PRPOB		31,679
DOH		16,428
SCB		27,489
Court Administration Office		34,033
DRS		18,167
	$	2,285,421
Notes payable to component units:		
SIFC	$	100,000
AACA		2,000
	$	102,000
Note payable to financial institution	$	23,764

Notes Payable to GDB

(i) Governmental Activities

The Commonwealth has entered into the following line of credit agreements with GDB (all within Governmental Activities) which were due and recorded as a fund liability in the General Fund as of June 30, 2018 (in thousands):

	government agencies' debt	months LIBOR (7%)	September 30, 2012	$ 100,000	57,597
DOT	To cover operational needs of catastrophic disaster funds	125 bp over three months LIBOR (7%)	September 30, 2013 – September 30, 2015	79,930	35,655
DOT	To fund information technology project	125 bp over GDB's commercial paper rate (7%)	June 30, 2008	14,782	11,652
DOT	Purchase of mobile X-ray machines	125 bp over three months LIBOR (7%)	June 30, 2008	12,000	2,104
DOT	To pay lawsuits against The Commonwealth	6 %	June 30, 2018	160,000	113,685
Office of Veteran's Ombudsman	To fund improvements to veteran's facilities	6 %	March 31, 2015	7,500	292
				$ 374,212	220,985

As of June 30, 2018, the DOT had entered into various lines of credit agreements with GDB amounting to approximately $2.7 billion for different purposes, bearing fixed and variable interest rates, and various maturity dates as summarized below (in thousands):

Purpose	Interest rate	Maturity	Lines of credit	Outstanding balance
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	7.00%	June 30, 2040	$ 741,000	141,211
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	7.00%	June 30, 2040	640,000	92,370
To finance capital improvements projects of agencies and municipalities	7.00%	June 30, 2019	130,000	71,578
To finance capital improvements of several governmental agencies	7.00%	June 30, 2040	105,000	58,973
To partially fund monthly principal and interest deposits required for 2013 debt service of General Obligation and Revenue Bonds	150 bp over PRIME, but not less than 6%	June 30, 2042	384,496	63,135

Purpose	Interest rate	Maturity	Lines of credit	Outstanding balance
To fund monthly principal and interest deposits required for the 2014 debt service of the General Obligation and Revenue Bonds	6.00%	June 30, 2043	$ 319,645	50,419
To finance certain capital improvement projects	150 bp over PRIME, but not less than 6%	June 30, 2043	100,000	34,789
To finance certain capital improvement projects	150 bp over PRIME, but not less than 6%	June 30, 2041	215,000	21,096
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2040	15,000	6,118
To pay invoices presented to the Treasury Department related to Act No. 171 “Ley de Manejo de Neumátuicos”	7.00%	June 30, 2019	22,100	538
Total			$ 2,672,241	540,227

During the fiscal year 2018, there were no annual appropriations from the Commonwealth of Puerto Rico’s budget to pay lines of credit of the Commonwealth or any instrumentalities, including component units, and other governmental entities.

On November 21, 2002, Resolution No. 1028 from the Legislature authorized GDB to provide a line of credit financing for $500 million to the SCPT for the construction and rehabilitation of housing, construction and improvements of electric, water and sewage systems; repair and improvements of streets and sidewalks; construction and improvement of recreational facilities, and to develop initiatives for economic self-sufficiency for the residents of a selected group of displaced and economically disadvantaged communities, all encompassed within the Special Communities Program initiated with the creation of the SCPT by Act No. 271-2002. This non-revolving line of credit, originally for a ten-year term, was extended on June 30, 2012 to a maturity date of June 30, 2040. Effective October 2009, the interest rate on this line was set at 7%. Annual payments on the line are determined using a 30-year amortization table based on the principal and interest balance as of December 31 of each year, and a 4% interest penalty is carried on late payments. Legislative Resolution No. 1762 of September 18, 2004, established that the principal plus accrued interest of this line would be repaid from Commonwealth’s legislative appropriations as established by the PROMB. The outstanding balance of this line as of June 30, 2018, amounted to approximately $345.8 million.

On May 23, 2012, the PROMB entered into a $100 million line of credit agreement (amended during fiscal year 2016 to a maximum of $178 million) with GDB to cover costs of the implementation of the third phase of Act No. 70-2010. Borrowings under this line of credit bear interest at prime rate plus 1.50% with a floor of 6%. The amended line of credit matures on July 31, 2037. As of June 30, 2018, approximately $115.5 million was outstanding. On June 5, 2006, the PROMB entered into a $150 million line of credit agreement with GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three-month LIBOR and were payable upon the original maturity of the line of credit on September 30, 2011. On July 22, 2011, PROMB and GDB amended the $150 million line of credit agreement to extend its maturity date to July 30, 2022. In addition, the agreement was converted to a revolving line of credit bearing interest at 150 basis points over prime rate, but in no

event may such rate be less than 6% per annum. As of June 30, 2018, approximately $150 million was outstanding. Both lines of credit for the aggregate outstanding balance of approximately $265.5 million are payable from Commonwealth's legislative appropriations.

On August 18, 2010, GDB provided PBA a non-revolving credit facility in the maximum principal amount of approximately $93.6 million bearing interest at a fluctuating annual rate equal to Prime rate, plus 150 basis points, provided that such interest cannot be less than 6%, or at such other rate determined by GDB. The proceeds of the facility were used for construction projects development. The line is due on June 30, 2044 and is payable from the proceeds of future revenue refunding bond issuance of PBA. As of June 30, 2018, approximately $51 million was outstanding. PBA also maintains a $75 million line of credit agreement with GDB for payment of operational expenses. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity on June 30, 2018. As of June 30, 2018, approximately $64.7 million was outstanding. In addition, on May 2, 2008, PBA executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed approximately $226 million, bearing interest at 6%. The loans and the accrued interest are due on June 30, 2044 and are payable from the proceeds of the future revenue refunding bond issuance of PBA. The loans are divided into approximately $209 million on a tax-exempt basis and approximately $16.9 million on a taxable basis. As of June 30, 2018, approximately $66.4 million remains outstanding.

On February 6, 2003, the DOE entered into a $25 million line of credit agreement with GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2018, approximately $4.6 million was outstanding. On August 4, 2002, the DOE entered into an additional $140 million line of credit agreement with GDB in order to reimburse the DOT for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2040. As of June 30, 2018, approximately $101.7 million was outstanding. Both lines of credit for the aggregate outstanding balance of approximately $106.3 million are payable from Commonwealth's legislative appropriations.

The DTPW of the Commonwealth entered into five line of credit agreements with GDB amounting to $104 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2018, approximately $82.9 million was outstanding, which is payable from Commonwealth's legislative appropriations.

On May 12, 2004, the Correction Administration of the Commonwealth (CA) entered into a $60 million line of credit agreement with GDB for improvements to certain correctional facilities. Borrowings under this line of credit agreement bear interest at a fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2018, approximately $18.1 million was outstanding, which is payable from Commonwealth's legislative appropriations. In addition, on November 24, 2010, the CA entered into an $80 million line of credit agreement with GDB for the construction of a new correctional medical center. Borrowings under this line of credit agreement bear interest at a rate per annum equal to Prime Rate, plus 150 basis points, but in no event may such rate be less than 6% per annum nor greater than 12% per annum and are payable upon the maturity of the line of credit on June 30, 2040. As of June 30, 2018, approximately $64.4 million was outstanding which is payable from Commonwealth's legislative appropriations.

On August 22, 2007, UPRCCC entered into an $18 million non-revolving line of credit agreement with GDB to build the UPRCCC's administrative offices and research facilities. On May 29, 2008, the

agreement was amended, mainly to increase the maximum borrowing amount to $75 million, to extend the maturity date up to October 31, 2021, and to finance the construction of the hospital and radiotherapy facilities. The balance was to be repaid commencing in fiscal year 2015. The non-revolving line bears interest at a fixed rate of 6%. As of June 30, 2018, approximately $31.9 million was outstanding. On November 18, 2013, the UPRCCC entered into another non-revolving line of credit facility with GDB up to an aggregate principal amount not to exceed $196 million, for the construction and development of a ninety-six-bed hospital, a multi-disciplinary outpatient clinic, a diagnostic imaging center and a medical oncology infusion unit in a land lot property of the UPRCCC located in San Juan. The line of credit, including interest at a fixed rate of 6.5%, is payable in 28 consecutive annual installments, commencing on the last business day of December 2016. As of June 30, 2018, approximately $88.5 million was outstanding. Both lines of credit for the aggregate outstanding balance of approximately $120.4 million are payable from Commonwealth's legislative appropriations.

On August 9, 1999, the DOA entered into a $125 million non-revolving line of credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004, the line of credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2040. As of June 30, 2018, approximately $65.2 million was outstanding, which is payable from Commonwealth's legislative appropriations.

On October 2, 2002, PRDOJ entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. On August 8, 2005, the PRDOJ entered into an amended agreement to increase the aforementioned line of credit from $90 million to $110 million to cover various additional projects in Ponce, pursuant to the same court order. Borrowings under the new amended line of credit agreement bear interest at a 7% rate and are payable upon the maturity of the line of credit on June 30, 2040. As of June 30, 2018, the aggregated balance outstanding under this amended line of credit agreement amounted to $49.8 million which, is payable from Commonwealth's legislative appropriations.

On February 18, 2005, PRIFA entered into a $40 million credit agreement with GDB for the construction of an auditorium for the Luis A. Ferré Fine Arts Center. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the loan agreement on June 30, 2040. As of June 30, 2018, approximately $4.8 million related to this credit agreement was outstanding. On June 1, 2009, PRIFA entered into an additional $7.8 million revolving line of credit agreement with GDB to provide financing for costs incurred by PRIFA under certain American Recovery and Reinvestment Act Programs (the ARRA programs). Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over the prime rate and were payable upon the maturity of the line of credit on January 31, 2016. As of June 30, 2018, the outstanding balance of this line of credit agreement amounted to approximately $7.1 million. On March 8, 2012, PRIFA also entered into a $35 million line of credit agreement with GDB for the acquisition, refurbishments, and maintenance of certain real estate properties that are mostly occupied by various governmental agencies. This credit facility is secured by a mortgage lien on the property. This line of credit matured on June 30, 2017, and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2018, the outstanding balance of this line of credit agreement amounted to approximately $37.4 million. The three lines of credit for

the aggregate outstanding balance of approximately $49.3 million are payable from Commonwealth's legislative appropriations.

On August 2003, the PRDOH entered into a $30 million line of credit agreement with GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2018, approximately $21.3 million related to this line of credit agreement was outstanding. On November 8, 2004, the PRDOH entered into an additional $58.5 million line of credit agreement with GDB for the financing of a project of the PRDOH and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2040. As of June 30, 2018, the outstanding balance of this line of credit agreement amounted to approximately $19.6 million, which is payable from Commonwealth's legislative appropriations. On February 14, 2008, the PRDOH also entered into an additional $8 million line of credit agreement with GDB to cover costs of treatment, diagnosis, and supplementary expenses during fiscal year 2008 in conformity with Act No. 150-1996. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three-month LIBOR and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2018, the outstanding balance of this line of credit agreement amounted to approximately $3.3 million, which is payable from Commonwealth's legislative appropriations.

On July 29, 2004, the PRPOB entered into a $45 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2040. The outstanding balance of this line of credit agreement amounted to approximately $31.7 million as of June 30, 2018, which is payable from the Commonwealth's legislative appropriations.

On February 15, 2002, the SCB entered into a $35 million line of credit agreement with GDB for the SCB parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2040. As of June 30, 2018, approximately $15.5 million remained outstanding from the line of credit agreement, which is payable from the Commonwealth's legislative appropriations. On February 9, 2012, the SCB entered into an additional $15 million line of credit agreement with GDB for permanent improvements of existing buildings. Borrowings under this line of credit agreement bear interest at 150 basis points over prime rate and may not be less than 6% nor greater than 12% per annum and were payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2018, approximately $6.5 million was outstanding, which is payable from Commonwealth's legislative appropriations. On December 17, 2014, the SCB entered into another $15 million line of credit agreement with GDB for permanent improvements to the Capitol District. Borrowings under this line of credit agreement bear interest at the fixed rate of 5.8% and are payable upon maturity of the line of credit on June 30, 2024. As of June 30, 2018, approximately $5.5 million was outstanding.

On March 8, 2007, the DOH entered into a $19 million line of credit agreement with GDB, to reimburse the Puerto Rico Housing Finance Authority (PRHFA), a blended component unit of GDB, for certain advances made for a revitalization project. Borrowings under this line of credit agreement bear interest at a variable rate of three-month LIBOR plus 1.25%, not to exceed 5%, and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2018, the line of credit has an outstanding balance of approximately $5.2 million, which is payable from the proceeds of the sale of properties. On December 3, 2007, the DOH entered into an additional $30 million line of credit

agreement with GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on 75 basis points over three-month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2018, approximately $11.2 million related to this line of credit agreement was outstanding, which is payable from future rental revenues.

On January 18, 2005, the DRS entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2040. As of June 30, 2018, approximately $500 thousands was outstanding. Also, on February 9, 2004, DRS entered into a $16 million line of credit agreement with GDB for the development and improvement of recreational facilities. Borrowings under this line of credit agreement bear interest on the unpaid principal amount of each advance at a fixed rate of 7% and were payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2018, approximately $600 thousands was outstanding, which is payable from Commonwealth's legislative appropriations. An additional line of credit agreement was entered into between GDB and DRS in the maximum principal amount of approximately $13 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2040. The proceeds of the line of credit were used for development and improvement of recreational facilities. As of June 30, 2018, approximately $8.2 million was outstanding, which is payable from Commonwealth's legislative appropriations.

On July 23, 2014, Act No. 107 was approved, creating the National Parks Program of the Commonwealth (NPP), which among other provisions, merged the National Parks Corporation of Puerto Rico (NPCPR), then a discretely presented component unit, into a program within the DRS, NPCPR then ceased to exist as a separate legal entity. With this transaction, the program brought three separate line of credit agreements with GDB into DRS. On August 17, 2007, NPP entered in a $10 million line of credit in order to finance an early retirement program in response to Act No. 70-2007. Borrowings under this line of credit agreement bear interest based on a fixed rate of 7%, and principal and interest are payable on October 31 of each year until December 31, 2018. The source for the repayment comes from revenues collected by NPP during the first four months of the year and thereafter until 2018. As of June 30, 2018, approximately $3.2 million was outstanding. On February 6, 2003, NPP entered in a $9.3 million line of credit in order to finance the improvements of certain parks, seaside facilities and buildings of NPP. Borrowings under this line of credit agreement bear interest based on a variable rate (7% as of June 30, 2018). Principal and interest are payable annually through June 30, 2040 and the source for the repayment comes from legislative appropriations. As of June 30, 2018, approximately $1.1 million was outstanding. During 2003, NPP entered into a $12 million line of credit in order to finance the acquisition of a certain land lot. Borrowings under this line of credit agreement bear interest based on a variable rate (7% as of June 30, 2018). Principal and interest are payable annually through June 30, 2040, and the source for the repayment comes from future Commonwealth's legislative appropriations. As of June 30, 2018, approximately $4.5 million was outstanding.

On February 27, 2014, the Court Administration Office entered into an additional $50 million line of credit agreement with GDB for the development of several priority projects pursuant to its strategic plan and to fund additional operational commitments. Borrowings under this line of credit agreement bear interest at 150 basis points over prime rate and may not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on July 31, 2027. As of June 30, 2018, approximately $34 million was outstanding, which is payable from future custom duty taxes.

On September 18, 2003, the EQB entered into a $11 million line of credit agreement with GDB for the federal funds matching requirements related to the Clean Water State Revolving Funds. Borrowings under this line of credit agreement bear interest at a variable rate of 150 basis points over Prime Rate calculated on a quarterly basis with a floor of 6% and are payable annually through March 31, 2017. If there is any unpaid principal amount after the maturity date, the interest rate will increase 200% of the applicable interest rate at such date. The interest payable will be accrued daily. As of June 30, 2018, approximately $2.2 million remained outstanding from the line of credit agreement, which is payable from the Commonwealth's legislative appropriations.

Notes Payable to Discretely Presented Component Units

Act No. 80-2015 was approved with the objective of addressing the Commonwealth's projected cash flow deficiencies for fiscal year 2015. This Act, among other provisions, specifically authorized the SIFC, PRTC, AACA, EDB, PRIDCO and the DEDC to grant loans and/or special contributions to the DOT, in the aggregate amount of $125 million. On June 5 and 9, 2015, SIFC and AACA granted loans to the DOT under the provisions of this Act in the amounts of $100 million and $2 million, respectively, which are payable from the Commonwealth's legislative appropriations. These loans bear interest at a rate of 1%, and principal and interest will be payable on an annual basis, effective July 31, 2017. The loan granted by ACAA matures on July 31, 2022, and that granted by SIFC matures on July 31, 2032. As of June 30, 2018, approximately $102 million remained outstanding.

Notes Payable to Financial Institutions

On December 26, 2013, the General Service Administration entered into a $33.3 million non-revolving line of credit agreement with a financial institution for the purchase of four helicopters to be used by the PRPOB, through a lease agreement between both government agencies. Such lease agreement has been assigned as the line of credit repayment source, which in turn will be sustained with annual future Commonwealth legislative appropriations in the amounts necessary to cover the required debt service of the line of credit. This obligation is payable in seven equal, annual and consecutive installments commencing on July 15, 2014, plus interest payable on July 15 and January 15 of every year beginning on July 15, 2014, at an interest rate based on the financial institution cost of funds, as defined, plus 0.25 basis points. The interest rate as of June 30, 2018, was 3.0204%. The good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of principal and interest on this obligation. As of June 30, 2018, approximately $23.8 million was outstanding. Debt service requirements in future years were as follows (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2019		14,258	1,528	15,786
2020		4,753	218	4,971
2021		4,753	73	4,826
Total	$	23,764	1,819	25,583

(ii) *Business-type activities* – At June 30, 2018, the following comprised the notes payable to GDB (in thousands):

PRMeSA	$	282,445
PRHIA		183,251
PPA		20,863
Notes payable to GDB	$	486,559

On October 14, 2010, the Legislature approved a new article 9A to Act No. 66-1978, by which it authorized PRMeSA, a blended component unit, to incur on an obligation of up to $285 million to be deposited in a special GDB account and to be used for payment of debts to suppliers, agencies and a reserve fund for self-insurance of PRMeSA, and to provide operational liquidity to ease PRMeSA's fiscal situation. GDB was named fiscal agent to administer and monitor the use of these funds. The Commonwealth is required to honor the payment of this obligation with future legislative appropriations to be made every year until fiscal year 2041–2042. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over the prime rate. No legislative appropriations have been made since 2015 to cover the principal payments as they have become due. As of June 30, 2018, approximately $282.4 million was outstanding.

On March 14, 2011, PRHIA, a blended component unit, entered into a credit agreement with GDB in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2010. The aggregate principal amount of the non-revolving line of credit was $186 million. This line is payable in nine payments of $20.7 million each due on March 14 of the years 2015 through 2023, through future Commonwealth annual legislative appropriations. Interest is accrued at a fluctuating annual rate of interest equal to the greater of 150 basis points over the prime rate or 6%. No legislative appropriations were made in 2016, 2017 or 2018 to cover the principal payments scheduled for March 14, 2016, 2017 and 2018. As of June 30, 2018, the outstanding principal balance amounted to approximately $183.3 million.

On August 29, 2014, the PPA, a blended component unit, entered into an $60 million line of credit agreement with GDB to cover the operational, maintenance, equipment acquisition and permanent improvement costs of the Ports of the Americas Rafael Cordero Santiago, pursuant to the provisions of Act No. 240-2011, which created the PPA (assets are owned by PA as of June 30, 2017). Borrowings under this line of credit agreement bear interest based on the rates borne by the general obligation of the Commonwealth. These rates should be revised on a quarterly basis provided, however, that the interest may never be less than 7% nor greater than 12%. Interest during fiscal year 2018 was 7.78%. The line of credit has a maturity of June 30, 2044, and its principal and interest payments are payable through annual legislative appropriations. As of June 30, 2018, the outstanding principal balance was approximately $20.9 million, which is payable from future Commonwealth's legislative appropriations.

(h) Obligations under Capital Lease Arrangements

The Commonwealth's Governmental Activities are obligated under capital leases with third parties that expire through 2044 for land, buildings, and equipment. The present value of future minimum capital

lease payments at June 30, 2018 reported in the accompanying government-wide statement of net position was as follows (in thousands):

Year ending June 30:		
2019	$	32,523
2020		32,408
2021		32,014
2022		29,549
2023		28,699
2024-2028		143,335
2029-2033		124,361
2034-2038		88,048
2039-2043		88,048
2044		7,337
Total future minimum lease payments		606,322
Less amount representing interest costs		(314,589)
Present value of minimum lease payments	$	291,733

Leased land, buildings, and equipment under capital leases included in capital assets at June 30, 2018, include the following (in thousands):

Land	$	7,960
Buildings		398,660
Equipment		3,707
Subtotal		410,327
Less accumulated amortization		(99,287)
Total	$	311,040

Amortization applicable to capital leases and included within depreciation expense of capital assets amounted to approximately $15.6 million in 2018.

(i) Net Pension Liability

The amount reported as net pension liability in the government-wide financial statements of approximately $38.8 billion of which approximately $663.6 million is due within one year at June 30, 2018, represents the Primary Government’s proportionate share of the ERS calculation of the net pension liability measured as the total pension liability less the amount of the ERS’ fiduciary net position, plus the sum of the full TRS and JRS measure of its total pension liability less the amount of its corresponding fiduciary net positions (see Note 18).

(j) Total Other Postemployment Benefit Liability

The amount reported as total other postemployment benefit liability in the government-wide financial statements of approximately $1.3 billion at June 30, 2018 represents the Primary Government’s proportionate share of the ERS calculation of the total other postemployment benefit liability, plus the sum of the full TRS and JRS measure of its total other postemployment benefit liability (see Note 19).

(k) Compensated Absences

Long-term liabilities include approximately $491.6 million and $16.2 million of accrued compensated absences recorded as Governmental and Business-type activities, respectively, at June 30, 2018.

(l) Obligation for Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as Traditional Lottery) and the Additional Lottery System (commonly known as Lotto) jointly known as the Lotteries at June 30, 2018. The minimum annual payments related to unpaid awards of both lotteries were as follows (in thousands):

		Principal	Interest	Total
Year ending June 30:				
2019	$	91,612	8,940	100,552
2020		11,363	8,315	19,678
2021		9,725	7,457	17,182
2022		8,606	6,952	15,558
2023		7,455	6,190	13,645
2024–2028		24,636	19,734	44,370
2029–2033		10,893	7,982	18,875
2034		334	191	525
Total	$	164,624	65,761	230,385

The minimum annual payments related to unpaid awards of Lotto include an unclaimed prizes liability (not lapsed) of approximately $7 million at June 30, 2018, which is reported as prizes payable – current portion.

The liability for unpaid lottery prizes is reported in Business-type activities of the accompanying statement of net position and statement of net position of the proprietary funds.

(m) Voluntary Termination Benefits Payable

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70-2010 established that early retirement benefits (early retirement program) will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of bi-weekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70-2010, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System (incentivized resignation program) or who have at least 30 years of credited service in the Retirement System and who have the age for retirement (incentivized retirement program). Economic incentives will consist of a lump sum payment ranging from one month to six months' salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same as provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five-year period.

On December 8, 2015, Act 211 was signed, called the “Voluntary Pre-Retirement Program” (the “Program”). It was created to establish a program that identifies eligible employees, who can be separated voluntarily and incentivized from their employment before they meet the requirements to retire.

The purpose of this program is to offer incentives for personnel who have been contributing to the Retirement System (the “System”) before April 1, 1990 under the Act No. 447-1951 or who began to contribute at a later date, and have made all the corresponding payments before April 1, 1990, without having received a refund of their contributions and who at least have 20 years of service registered.

To ensure that this program does not affect the services to the citizenship or the operation of the agencies, only career employees who occupy positions which do not provide direct services, that are not essential for the operation of the agency or whose positions could be occupied by transfers within and between agencies may participate in the program. Essential service positions are those positions whose functions are specialized, essential or indispensable to the effective operation of the agency, so that it can serve the public purpose for which it was created as a governmental body.

At June 30, 2018, unpaid long-term benefits granted in Act No. 70-2010 and Act. No. 211-2015 were discounted at interest rates that ranged from 1% to 3.54% at the Primary Government level and from 1% to 2.58% at the component units level.

On April 18, 2018 the Commonwealth enacted Order OA-2018-04 for the Department of Education and Order OA-2018-06 for the Public Security Department. The purpose of these orders is to provide economic incentives for voluntary employment termination to eligible employees.

The incentives offered by the order OA-2018-04 in the Department of Education if termination was presented on or before May 2018 included 12 months paid salary and $100/month for medical insurance payment. If termination was presented after May 2018 the incentives were 8 months paid salary and $100 a month for medical insurance payment. All benefits are to be paid monthly.

The Public Security Department order OA-2018-06 offers incentives which were separated between officers (Rank employees) and civil employees. For officers the incentives included 9 months’ salary and $100/month medical insurance payment if termination was presented on or before May 2018. If termination was presented after May 2018 the benefits were reduced to 6 months’ salary and $100/month for medical insurance payments. Civil employees’ benefits included 6 months’ salary and $100/month for medical insurance payment if termination presented on or before May 2018 and 4 months’ salary and $100/month medical insurance payment if termination was presented afterwards.

(n) Liability for Unemployment, Disability and Health Insurance

The Commonwealth provides unemployment compensation, occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the DLHR. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as a consequence of their employment.

Also, the Commonwealth, through PRHIA (a blended component unit), is responsible for implementing, administering, and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to the Commonwealth residents regardless of their financial condition and capacity to pay. PRHIA pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth, net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105-2002, which amends Act No. 72-1993, PRHIA was authorized to negotiate directly with health providers under a pilot program. PRHIA has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, PRHIA directly contracted providers that served approximately 190,000 lives from the metro north region. At June 30, 2011, PRHIA has direct contracting projects with the municipalities of Vieques and Guaynabo, and effective October 1, 2011, the projects were expanded to cover the west, the metro north, the north, San Juan, the northeast, and the virtual regions under a new arrangement with a new insurance underwriter as third-party administrator. In addition, PRHIA implemented certain cost containment strategies to control costs, such as establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of a disease management program for respiratory conditions, modification of provider fees, and better coordination of benefits for members of the population that have other medical insurance.

PRHIA establishes a liability to cover the estimated amount to be paid to providers based on experience and accumulated statistical data. The estimates of medical claims incurred but not reported and other medical expense payments is developed using actuarial methods and assumptions based upon payment patterns, inflation of medical costs, historical developments, and other relevant factors.

The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the period ended June 30, 2018 (in thousands):

		PRHIA	Unemploymen insurance	Nonmajor proprietary funds	Totals
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	40,137	49,431	645	90,213
Total incurred benefits		1,062,262	151,281	1,904	1,215,447
Total benefit payments		(978,993)	(149,504)	(1,976)	(1,130,473)
Liability for incurred but unpaidbenefits and benefit adjustment expenses at June 30	$	123,406	51,208	573	175,187

The liability for benefits claims is reported as a liability for unemployment, disability and health insurance in the Business-type activities of the accompanying statement of net position and in the statement of net position of the proprietary funds. The liability as of June 30, 2018, amounts to approximately $175.2 million.

(o) Other Long-Term Liabilities

The remaining long-term liabilities of Governmental Activities at June 30, 2018 include (in thousands):

Liability for legal claims and judgments (note 17)	$	1,127,273
Liability to U.S. Army Corps of Engineers (note 11)		206,812
Liability for custodial credit risk loss and uncollectible loans receivable of State Revolving Funds		188,965
Accrued Employees' Christmas bonus		61,252
Liability for federal cost disallowances (note 17)		57,418
Other		42,943
Total	$	1,684,663

As described in Note 11, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to $214 million, excluding those costs for items built for recreational purposes. On October 10, 2012, the U.S. Army Corps of Engineers placed such debt into the U.S. Treasury Department Offset Program (the Offset Program) until May 2013 (the month in which the Offset Program was stopped). On March 21, 2014, the

U.S. Army Corps of Engineers granted certain concessions on this obligation of the Commonwealth by forgiving the balance already due and payable in the amount of $35.4 million and approving a new payment plan proposed by the Secretary of the DOT for the remaining debt obligation. This new payment plan reduced the interest rate from 6.063% to 1.50% and waived all cumulative penalty interest and fees, which reduced the annual payment from approximately $12.9 million to approximately $7.1 million for the remaining term of the debt. The new payment plan consists of 33 annual payments of $7.1 million, including interest, from June 7, 2014 until June 7, 2046. These concessions qualified as a troubled debt restructuring, where the total future cash payments specified by the new terms exceeded the carrying value of the old debt, including the accrued balance matured and payable of $35.4 million. Under such circumstances, the effects of the new terms are accounted for prospectively without modifying the carrying amount of the debt in the statement of net position.

The unpaid allocated share of the construction costs associated with the Cerrillos Project amounted to approximately $160.8 million at June 30, 2018. Debt service requirements on this debt obligation at June 30, 2018 were as follows (in thousands):

		Principal	Interest	Total
Year(s) ending June 30:				
2019	$	4,664	2,413	7,077
2020		4,734	2,342	7,076
2021		4,805	2,271	7,076
2022		4,877	2,199	7,076
2023		4,951	2,126	7,077
2024–2028		25,889	9,495	35,384
2029–2033		27,890	7,494	35,384
2034–2038		30,045	5,339	35,384
2039–2043		32,367	3,017	35,384
2044–2047		20,609	621	21,230
Total	$	160,831	37,317	198,148

In addition, the Commonwealth has a debt obligation of approximately $46 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of approximately $7.4 million, at June 30, 2018. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable in annual installment payments over a 35-year period. However, the debt has been presented as a long-term liability payable after one year in the accompanying statement of net position since the commencement date of repayment has not yet been determined.

The Commonwealth recorded a contingent liability for the custodial credit risk loss on deposits held at GDB by the Clean Water State Revolving Funds amounting to approximately $189 million at June 30, 2018.

The remaining other long-term liabilities within Business-type activities on June 30, 2018 are composed of an accrued capital related liabilities and a self-insurance reserve for approximately $4.2 million, corresponding to PRMeSA.

Discretely Presented Component Units

Appropriations bonds, bonds, and notes payable are those liabilities that are paid out of the discretely presented component units' own resources. These obligations do not constitute a liability or debt of the Primary Government.

(a) Commonwealth Appropriation Bonds

Commonwealth appropriation bonds payable outstanding at June 30, 2018 were as follows (in thousands):

Component unit	Interest rates	Maturity through		Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018	Amounts Due within one year
Major component units:								
PRASA	3.10% – 6.50%	2032	$	416,058	—	279	415,779	—
GDB	3.10% – 6.50%	2032		3,336	3	—	3,339	260
Sub-total				419,394	3	279	419,118	260
Nonmajor component units	3.10% – 6.50%	2032		108,743	57	7	108,793	11,202
Total			$	528,137	60	286	527,911	11,462

Debt service requirements on the Commonwealth's appropriation bonds payable with fixed maturities at June 30, 2018 were as follows (in thousands):

		Principal		Interest	Total
Year(s) ending June 30:					
2019	$	11,462		24,011	35,473
2020		9,598		27,555	37,153
2021		9,996		27,134	37,130
2022		10,432		26,675	37,107
2023		10,906		26,174	37,080
2024–2028		164,146		120,052	284,198
2029–2032		306,168		117,558	423,726
		522,708	$	369,159	891,867
Premium		5,262			
Discount		(59)			
Total	$	527,911			

The above schedule has been presented in accordance with original terms of the bonds payable and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceeding. Accordingly, the effects of the PROMESA Title III or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

(b) Revenue Bonds

Revenue bonds outstanding at June 30, 2018 were as follows (in thousands):

Component Unit	Interest rates	Maturity through	Balance at June 30, 2017 as restated	Additions	Reductions	Balance at June 30, 2018	Due within one year
Major component units:							
GDB	2.96%–6.56%	2031	$ 116,477	—	78,847	37,630	12,221
PRHTA	2.25%–6.50%	2046	4,336,313	5,692	21,235	4,320,770	213,010
PREPA	4.00%–10.00%	2043	8,356,314	132,560	141,710	8,347,164	957,976
PRASA	2.00%–6.125%	2056	3,979,826	—	54,329	3,925,497	78,356
UPR	5.00%–5.63%	2036	491,155	—	26,141	465,014	25,695
Sub-total			17,280,085	138,252	322,262	17,096,075	1,287,258
Nonmajor component units	2.75%–6.75%	2036	1,295,702	289	84,469	1,211,522	303,412
Total			$ 18,575,787	138,541	406,731	18,307,597	1,590,670

PREPA, a major discretely presented component unit, and PRIDCO, a nonmajor discretely presented component unit, have bonds that may have acceleration provisions contained in the Trust Agreements. Due to the fact that PREPA is currently a debtor in a Title III proceeding under PROMESA any action that would be taken to accelerate the bonds is subject to the automatic stay in that proceeding. Therefore, the acceleration provision is not relevant despite the fact that an event of default arguably exists under the Trust Agreement. As for PRIDCO, the Trustee has not sent a default notice or declared the defaulted principal on all bonds outstanding due and payable immediately subject to the applicable acceleration provisions.

Debt service requirements on discretely presented component units' revenue bonds with fixed maturities at June 30, 2018 were as follows (in thousands):

	Principal	Interest	Total
Years ending June 30:			
2019	$ 1,590,670	971,250	2,561,920
2020	695,496	915,467	1,610,963
2021	677,087	830,527	1,507,614
2022	654,152	796,850	1,451,002
2023	667,064	759,287	1,426,351
2024-2028	2,995,075	2,673,846	5,668,921
2029-2033	3,330,644	2,578,656	5,909,300
2034-2038	3,205,222	1,742,526	4,947,748
2039-2043	3,149,564	875,269	4,024,833
2044-2048	960,004	203,410	1,163,414
2049-2053	62,016	11,161	73,177
2054-2058	723	274	997
Total	17,987,717	$ 12,358,523	30,346,240
Unaccreeted interest	(135)		
Premium	356,454		
Discount	(36,439)		
	$ 18,307,597		

The above schedule has been presented in accordance with original terms of the revenue bonds and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceeding. Accordingly, the effects of the PROMESA Title III or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

Changes in deferred outflows of resources related to losses on the refunding of some of the bonds referred to in the table above follow (in thousands):

Component unit		Balance at June 30, 2017	Reductions	Balance at June 30, 2018
Major component units:				
PRHTA	$	93,315	10,005	83,310
PREPA		40,994	6,468	34,526
PRASA		23,027	4,678	18,349
UPR		1,943	271	1,672
GDB		2,151	240	1,911
Nonmajor component units		14,821	1,977	12,844
Total	$	176,251	23,639	152,612

The table that follows presents debt service payments on PREPA's variable rate bonds and the net payments on associated hedging derivative instruments as of June 30, 2018. Such variable rate bonds are included within bonds payable in the discretely presented component units column. Although interest rates on variable rate debt and the current reference rate of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument at June 30, 2018 will remain the same for their term (in thousands).

		Variable-Rate Bonds		Hedging derivative instruments,	
		Principal	Interest	net	Total
Year(s) ending June 30:					
2019	$	—	5,272	5,045	10,317
2020		—	5,272	5,045	10,317
2021		—	5,272	5,045	10,317
2022		—	5,272	5,045	10,317
2023		—	5,272	5,045	10,317
2024-2028		—	26,362	25,225	51,587
2029		252,875	5,272	5,045	263,192
Total	$	252,875	57,994	55,495	366,364

Several discretely presented component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in

the statement of net position. As of June 30, 2018, the following bonds are considered defeased (in thousands):

		Amount outstanding
PRHTA	$	153,470
Nonmajor component units		170,900
Total	$	324,370

(c) Notes Payable to Financial Institutions

The outstanding balance of notes payable to financial institutions at June 30, 2018 is as follows (in thousands):

Component unit	Interest rates	Maturity through		Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018	Due within one year
Major component units:								
GDB	3.375%–8.00%	2042	$	3,838,535	—	1,065	3,837,470	1,794,620
PREPA	2.00%–7.25%	2033		717,466	1,418	905	717,979	696,652
PRASA	4.95%-5.95%	2018		1,610	—	1,610	—	—
UPR	0%-5%	2022		873	425	237	1,061	307
SIFC	6.31%-6.84%	2019		9,379	—	7,683	1,696	1,696
Sub-total				4,567,863	1,843	11,500	4,558,206	2,493,275
Nonmajor component units	4.12%-7.50%, Variable	2031		400,102	15,143	25,097	390,148	51,656
Total			$	4,967,965	16,986	36,597	4,948,354	2,544,931

Debt service requirements on discretely presented component units' notes payable with fixed maturities at June 30, 2018 were as follows (in thousands):

		Principal	Interest	Total
Year(s) ending June 30:				
2019	$	2,544,931	372,843	2,917,774
2020		447,504	149,109	596,613
2021		460,275	105,754	566,029
2022		159,777	80,567	240,344
2023		68,067	73,072	141,139
2024-2028		1,028,698	192,554	1,221,252
2029-2033		190,950	51,016	241,966
2034-2038		22,365	28,521	50,886
2039-2043		25,787	20,144	45,931
Total	$	4,948,354	1,073,580	6,021,934

The above schedule has been presented in accordance with original terms of the notes payable and do not reflect the effects, if any, that may result from the PROMESA Title III proceedings or any other debt restructuring proceeding, including the effect of the GDB Qualifying Modification. Accordingly, the effects

of the PROMESA Title III or any other debt restructuring proceeding may affect the carrying amounts, interest rates and the repayment terms. See Note 3 and Note 23 for additional information.

(14) Guaranteed and Appropriation Debt

(a) Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. The guarantees are backed by the full faith and credit of the Commonwealth. The guarantees are accounted for following the guidance provided by GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB Statement No. 70 requires that nonexchange financial guarantees be recorded when qualitative factors and historical data, if any, indicate that it is more likely than not that the Commonwealth will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee.

The table below represents amounts guaranteed by the Commonwealth and the related amount that has been recorded in the basic financial statements as of June 30, 2018 (in thousands):

		Outstanding balance	Recorded commonwealth guaranteed obligation
Blended component units:			
PBA	$	3,991,196	N/A
PA		225,534	N/A
PRIFA		78,145	N/A
Discretely presented component units:			
GDB		110,000	125,267
PRASA		1,254,126	267,076
Total	$	5,659,001	392,343

PBA – PBA, a blended component unit, uses the payments of rentals of certain government facilities like departments, agencies, instrumentalities and municipalities of the Commonwealth under various lease agreements executed pursuant to the enabling Act that created it (Act No. 56-1958, as amended) for the payment of principal and interest on its own debt. Act No. 56-1958 also provides that the DOT will make advances to PBA for any unpaid portion of rent payable to PBA by any departments, agencies, instrumentalities, or municipalities of the Commonwealth under a lease agreement with PBA. Such advances are recorded as reductions of rent receivables since the responsibility of reimbursement belongs to the corresponding agency or instrumentality according to the enabling Act.

On December 21, 2018, the Oversight Board and the Creditors' Committee commenced an adversary proceeding styled The Fin. Oversight and Mgmt. Bd. for Puerto Rico v. Puerto Rico Public Building Auth., Case No. 18-00149-LTS (D.P.R. Dec. 21, 2018), seeking declaratory relief and disallowance of administrative rent claims. The adversary proceeding alleges that the PBA leases are not true leases, but rather "disguised financing transactions." Multiple parties have filed motions to intervene. On January 28, 2019, PBA responded to the complaint.

The debt of PBA is supported by a guarantee of the Commonwealth that if revenues or income of PBA are not sufficient for the payment of principal and interest when they come due, the DOT will withdraw from any available funds amounts as may be necessary to cover the deficiency. The debt of PBA is further supported by a Commonwealth guarantee. Act No. 56-1958 is silent as to whether there are arrangements established for recovering payments from PBA if the guarantee is exercised; however, there is no intention from the Commonwealth to request a recovery of any such eventual payments.

Beginning on July 1, 2016, a portion of PBA debt service due on that date and scheduled for service in subsequent periods through the date of these basic financial statements was not paid, including interest payments. Some of the interest that was in fact paid after July 1, 2016 reflected amounts received from applicable subsidy programs.

PA – At various times during fiscal years ending in 2005 and 2006, the PA, a blended component unit of the Commonwealth, entered into bond purchase agreements with the GDB, whereby the GDB agreed to disburse to the PA from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). These bonds are guaranteed by the Commonwealth by Act No. 409-2004, which authorized the issuance of these financing arrangements and are accounted for by the Commonwealth as a liability under bond purchase agreement with GDB. The proceeds of the bonds were used to finance the cost of development and construction of the PA facilities. The Commonwealth had been paying for debt service on these bonds under its guarantee pursuant to Act No 409-2004.

PRIFA – On March 17, 2015, PRIFA, a blended component unit of the Commonwealth, issued $245.9 million of Dedicated Tax Fund Revenue Bond Anticipation Notes (the PRIFA BANs or Series 2015A BANs), the proceeds of which were used to refinance certain outstanding PRHTA bond anticipation notes and pay related expenses. The PRIFA BANs are payable from, and are supported by, a Trust Estate comprising certain assets and revenues of PRIFA, which include: (i) a $6.25/barrel Petroleum Products Tax on non-diesel products; (ii) any funds received by PRIFA pursuant to the terms of a financial assistance agreement between PRIFA and PRHTA; and (iii) any additional revenues pledged to PRIFA in accordance with the Trust Agreement. The PRIFA BANs are guaranteed by the Commonwealth. The PRIFA BANs agreement, and the underlying Trust Agreement are silent as to whether there are arrangements established for recovering payments from PRIFA if the guarantee were to be claimed; however, there is no intention from the Commonwealth to request a recovery of any such eventual payments. As of the date of these basic financial statements, no payments have been made honoring the aforementioned guarantee.

All of the monthly debt service due on the PRIFA BANs since August 1, 2016 remain unpaid.

GDB – On February 13, 2014, the Commonwealth enacted Act No. 24 that, among other provisions, increased from $500 million to $2 billion the amount of GDB obligations that can be guaranteed by the full faith and credit of the Commonwealth.

On December 13, 2013, GDB issued Senior Guaranteed Notes 2013 Series B (guaranteed by the Commonwealth). The 2013 Series B Notes consist of term notes maturing on various dates from December 1, 2017 to December 1, 2019 and carry an interest rate of 8% payable monthly on the first day of each month. At June 30, 2018, the outstanding balance of these notes amounted to $110 million. SIFC, a major discretely presented component unit of the Commonwealth, is the sole holder of these bonds. Based on the liquidity and uncertainty risks discussed in Note 2, GDB has shown all indicators to conclude that there is substantial doubt as to GDB's ability to continue as a going concern. These risks and events impacting GDB caused the Commonwealth's management to recognize a liability on this

guaranteed obligation in the amount of approximately $125.3 million based on the discounted present value of the best estimate of the future outflows expected to be incurred, at that moment, as a result of the guarantee. Act No. 24-2014, referred to above, is silent as to whether there are arrangements established for recovering any potential payments from GDB for guarantee payments made; however, there is no intention from the Commonwealth to request a recovery of any potential payments. As of the date of these basic financial statements, no payments have been made honoring the aforementioned guarantee. GDB made its monthly payments of interest until July 2016, but beginning on August 1, 2016, GDB has missed such payments.

As discussed in Note 2, GDB has executed an orderly wind down of its operations and has entered into a Qualifying Modification of its debts pursuant to Title VI of PROMESA.

PRASA – Act No. 45-1994, as amended, states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA, a discretely presented component unit. Act No. 140-2000 amended Act No. 45-1994 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the SRFP outstanding at the effective date of Act No. 140-2000, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386-2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75-2010 amended Section 1 of Act No. 45-1994 to extend the Commonwealth guarantee over the bonds issued under the United States Department of Agriculture (USDA) Rural Development Program and SRFP's borrowings to June 30, 2015. Pursuant to Act No. 96-2015, the Commonwealth guarantee on the payment of principal and interest on most of the outstanding Clean Water State Revolving Funds loans granted to PRASA was extended to cover such loans issued through June 30, 2020. Each of these Acts, as amended, is silent as to whether there are arrangements established for recovering potential payments from PRASA if the guarantee is executed; however, there is no intention from the Commonwealth to request a recovery of any such eventual payments.

The USDA Rural Development Program assists PRASA in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from PRASA, the proceeds of which are used by PRASA to finance such projects. As of June 30, 2018, the USDA Rural Development Program Bonds consisted of twenty-seven- (27) separate series, issued from 1983 through 2016 and bearing interest from 2% to 5% due in semiannual installments through 2055. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2018 was approximately $389 million. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth pursuant to Act No. 140-2000 as amended, and PRASA's net revenue is pledged toward the payment of debt service on the USDA Rural Development Program Bonds. The USDA Rural Development Program Bonds are subordinate to all senior and senior subordinated debt.

The PRWPCRF and the PRSDWTRLF (collectively, the Clean Water State Revolving Funds) were created by Act No. 44-1988 and Act No. 32-1997, respectively, of the Commonwealth. The PRWPCRF is administered, pursuant to Act No. 44-1988 and Act No. 9-1970, as amended, by EQB. The PRSDWTRLF is administered, pursuant to Act No. 5-1977, as amended, by the PRDOH. Pursuant to these laws, the EQB and the PRDOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the EPA. PRIFA, PRASA, and GDB entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Clean Water State Revolving Funds. PRASA has entered into revolving loan agreements to finance certain capital improvements. As of June 30, 2018 PRASA had outstanding approximately $580.3 million under these loan agreements, which bear interest at a 2% annual rate payable semiannually and are required to be paid in full within 20 years of the project

completion date. PRASA has pledged its net revenue on a basis subordinate in all respects to PRASA's bonds outstanding. If PRASA's pledged revenue is not sufficient for the payment of principal and interest, the payments are guaranteed by the Commonwealth under Act No. 45-1994, as amended, which obligates the Commonwealth to pay principal and interest on the notes.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the 2008 Revenue Refunding Bonds) that were guaranteed by the Commonwealth and primarily used to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (which were also guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the 2008 Revenue Refunding Bonds at June 30, 2018 amounted to approximately $284.8 million.

As a result of the voluntary disclosure statement issued by PRASA on March 4, 2016 regarding the expectation that it might not have sufficient funds to fully fund the debt service on certain of its Commonwealth guaranteed debt, management concluded that it would be more likely than not that the Commonwealth will be required to make a payment only on the USDA Rural Development Program Serial Bonds guarantee. As a result, a liability on the Rural Development Bonds guaranteed obligation in the amount of approximately $267 million was recognized at June 30, 2018. This measurement was based on the discounted present value of the best estimate of the future outflows expected to be incurred, at that moment, as a result of the guarantee. As of the date of these basic financial statements, no payments have been made honoring the aforementioned guarantee. The 2008 Revenue Refunding Bonds and the SRFP loans were excluded from this conclusion because: (a) the 2008 Revenue Refunding Bonds are considered senior subordinated debt and will not be affected by the aforementioned set asides; and (b) the Clean Water State Revolving Funds are proprietary funds within the Commonwealth and not a separate legal entity, and therefore there is no separate guarantee liability.

Forbearance Agreements

On June 30, 2016, PRASA executed a Forbearance Agreement (the "SRFP Forbearance Agreement") with the PRDOH and EQB, administrators of the Clean Water State Revolving Funds Program, and PRIFA, a blended component unit of the Commonwealth, as operating agent for the SRFPs, authorized to assist the PRDOH and the EQB in the administration, financial and accounting activities of the SRFPs. Under the SRFP Forbearance Agreement, as further amended on several occasions, the payments due until July 1, 2019, inclusive, under the SRFP Loans were deferred and the parties thereto agreed to forbear from exercising, or consenting to the exercise of, any enforcement of rights or remedies available to each under the SRFP Loans subject to certain conditions and partial payments.

PRASA also requested that the USDA Rural Development Program provide a short-term- forbearance period, which included deferral of the payments due on July 1, 2016; January 1, 2017; July 1, 2017; January 1, 2018; July 1, 2018; January 1, 2019 and July 1, 2019 during which they would refrain from exercising its rights and remedies under the Rural Development ("RD Bond") documents or grants or loan agreements related to the PRASA's USDA Rural Development, Rural Utilities Service program bonds (the "RD Bonds"), subject to certain conditions and partial payments. To this effect, the PRASA and USDA Rural Development Program executed a forbearance document as of June 30, 2016. Subsequently, the forbearance period was further extended on several occasions until July 31, 2019.

On July 26, 2019, PRASA and FAFAA consummated definitive agreements (the "Agreements") restructuring the PRASA's debt obligations under SRFP loans and RD Bonds totaling almost $1 billion (the SRFP loans and RD Bonds are collectively referred to as the "Federal Debt").

The Agreements were approved by the Oversight Board pursuant to Section 207 of PROMESA. The Agreements include the termination of existing Commonwealth guarantees of the Federal Debt, thus reducing overall Government contingent liabilities by approximately $1 billion and the consolidation of all the restructured debt into two SRFP loans and one RD loan to replace the existing SRFP loans and RD Bonds with extended maturities and lower interest rates as follows:

- RD loans: 40-year term at 2% interest rate, with $10 million annual debt service from years 1 to 10 and $17 million annual debt service thereafter
- SRFP loans: 30-year term at 0% interest rate and $10 million annual principal-only payment from years 1 to 10 and 1% interest rate and $27 million annual debt service thereafter.

The restructured Federal Debt was designated as Other System Indebtedness in parity with other senior debt under PRASA's Master Agreement of Trust.

(b) Debt Supported by Commonwealth Appropriations

At June 30, 2018, the outstanding principal balances of debt payable by Commonwealth appropriations and sales and use taxes (PFC bonds and notes payable, as described in Note 13(d), and notes payable to GDB and others, as described in Note 13(e)), which are included in the stand-alone basic financial statements of the following discretely presented component units, were as follows (in thousands):

		PFC bonds and notes	Notes payable to GDB and others	Total
Major Component Units:				
PRASA	$	411,229	—	411,229
GDB		3,398	—	3,398
UPR		—	48,286	48,286
PREPA		—	713	713
Sub-total		414,627	48,999	463,626
Nonmajor Component Units		108,793	388,252	497,045
Total	$	523,420	437,251	960,671

(c) Other Guarantees

Mortgage Loan Insurance – The PRHFA, a blended component unit of GDB, provides mortgage credit insurance to low and moderate-income- families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2018, the mortgage loan insurance program covered loans aggregating to approximately $536 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees and there are no triggering events indicating that it is more likely than not that it will be required to make payments on these guarantees.

(15) Conduit Debt Obligations and No Commitment Debt

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to the citizens of Puerto Rico. These bonds are supported by the property

financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any of its political subdivisions or its component unit thereof is obligated in any manner for the repayment of these bonds. Accordingly, the bonds are not reported as long-term liabilities in the stand-alone audited basic financial statements of the issuing entities. As of June 30, 2018, conduit debt obligations consisted of the following bonds issued by several Commonwealth's discretely presented component units (in thousands):

Issuing entity		Issued since inception to date	Amount outstanding
Major component units:			
GDB	$	1,047,500	358,700
PRHTA		270,000	114,510
Sub-total		1,317,500	473,210
Nonmajor component units		1,176,858	807,600
Total	$	2,494,358	1,280,810

(a) GDB

In December 2003, GDB, through PRHFA, a blended component unit of GDB, issued approximately $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the PHA, a fund of the Commonwealth, in its financing of improvements to various public low and moderate-income housing projects. The Capital Fund Program Bonds Series 2003 are limited obligations of the PRHFA, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development (U.S. HUD) and other funds available under the bond indenture. Accordingly, these bonds are considered conduit debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to approximately $105.3 million at June 30, 2018.

On August 1, 2008, the PRHFA issued the Capital Fund Modernization Program Subordinate Bonds amounting to approximately $384.5 million. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384.5 million bonds are limited obligations of the PRHFA, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. HUD, with an outstanding balance of approximately $253.4 million at June 30, 2018. Payment of principal of the Housing Revenue Bonds was also secured by an irrevocable standby letter of credit issued by GDB.

(b) PRHTA

In March 1992, the PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B, and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by the PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E. (Autopistas), pursuant to a signed concession agreement for the design, construction, operation, and maintenance of the bridge. On October 30, 2003, the PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were

transferred by the PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and the PRHTA. The bonds should be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and the PRHTA is then obligated to assume Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenue of the use and operation of the bridge. The PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2018 amounted to approximately $114.5 million.

(16) Risk Management

Primary Government

The risk management policies of the Primary Government are addressed on Note 1(y).

Discretely Presented Component Units

The following describes the risk management programs separately administered by certain discretely presented component units, including all the major discretely presented component units and certain nonmajor discretely presented component units carrying self-funded- risk reserves:

(a) GDB

As previously noted, GDB ceased operations as of March 23, 2018 and completed a debt restructuring pursuant to a Qualifying Modification under Title VI of PROMESA, which became effective on November 29, 2018. For additional information regarding GDB's Qualifying Modification under Title VI of PROMESA, refer to Note 3(c)(x).

Prior to these developments and during fiscal year 2018, to minimize the risk of loss, GDB purchased insurance coverage for public liability, hazard, automobile, crime, and bonding, as well as workmen's compensation insurance for employees. The selection of the insurer needed to be approved by the Public Insurance Office of the DOT. Insurance coverage was updated annually to account for changes in operating risk. For the three-years prior to June 30, 2018, insurance settlements did not exceed the amount of coverage. Other risk management policies of GDB involved its mortgage and loans servicing and insurance activities. Certain loan portfolios of the PRHFA were administered by private servicers who were required to maintain an errors and omissions insurance policy. The PRHFA had a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) PRHTA

PRHTA carries commercial insurance to cover casualty, theft, claims, and other losses. The PRHTA has not settled any claims in excess of its insurance coverage for any of the past three-years.

(c) PREPA

PREPA purchases commercial insurance covering all risk property (including catastrophic risks), business interruption and extra expense (excluding transmission and distribution lines), boiler and machinery, general liability, aviation and financial lines programs. In addition, PREPA is self-insured in regard to damages related to its transmission and distribution lines.

PREPA has a cost-plus- health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program (self-insurance- risks) during fiscal year 2018 were as follows (in thousands):

Claims payable – July 1	$	4,121
Incurred claims		42,281
Claim payments		(42,950)
Claims payable – June 30	$	3,452

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying combining statement of net position – discretely presented component units.

(d) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood, and earthquake damages) and comprehensive general and automobile claims. PRASA also has an Owner Controlled Insurance Program under which commercial general liability, excess general liability, builder's risk, and contractors' pollution liability coverage are procured or provided on a project "wrap up" basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the applicable project site. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage for fiscal year 2018.

(e) UPR

UPR is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Through January 1993, the UPR was insured under claims made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, the UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, the UPR is now self-insured- for such risks. Under Act No. 98-1994, the responsibility of the UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured- risk liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily result in an exact amount because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount for medical malpractice in fiscal year 2018 were as follows (in thousands):

Claims payable – July 1	$	8,175
Incurred claims and changes in estimates		328
Payments for claims and adjustments expenses		(278)
Claims payable – June 30	$	8,225

In addition, the UPR is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of approximately $5.9 million as of June 30, 2018 to cover claims and lawsuits that may be assessed against the UPR.

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying combining statement of net position – discretely presented component units.

(f) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death caused by work or employment related accidents, or by illness suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the fiscal year 2018 (in thousands):

Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	708,492
Total incurred benefits		277,164
Total benefit payments		(304,922)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	680,734

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 4.05% in 2018. SIFC's management believes that discounting such liability results in a better matching of costs and revenue since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2018, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for insurance benefits in the accompanying combining statement of net position – discretely presented component units.

(17) Commitments and Contingencies

Primary Government

Legal Contingencies

(a) Litigation Prior to Commencement of Title III Cases Related to Governmental Operations

The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104-1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9-1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments. To the extent claims arose prior to the commencement of the Commonwealth's Title III case, their status and priority may be affected by the Title III case.

With respect to pending and threatened litigation involving the Commonwealth's Governmental Activities, excluding the litigation mentioned in the ensuing paragraphs, the Commonwealth reported approximately $1.1 billion as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2018. This amount was included as other long-term liabilities in the accompanying statement of net position, and represents the amount estimated as a probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The amounts recorded as legal contingencies by the Commonwealth do not reflect the dollar value the Commonwealth may have to pay on account of any claim. Any payments made on account of such claims will reflect the impact of the Commonwealth's case under Title III of PROMESA, and the effect such filing has on the priority and allowability of such claim, and the recoveries to be provided to holders of such claims. For further information regarding Title III of PROMESA refer to Note 3.

Of the total liability for legal claims and judgments recognized in the Governmental Activities, approximately $138.5 million is considered payable within one year, based on the payments made subsequent to June 30, 2018 through June 30, 2019.

The Commonwealth is a defendant in parallel lawsuits regarding an alleged inappropriate withholding of Medicaid funds, one filed in the state court and two in federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth approximately $800 million of Medicaid funds retained by PRDOH since 1997. In February 2005, the United States Court of Appeals for the First Circuit determined that the Commonwealth must return the funds withheld because of noncompliance with a federal law. The Commonwealth is still contesting several provisions of this determination and amounts to be returned and payment plan methods are still in the process of estimation. The Commonwealth has determined that prior year amounts accrued for this legal contingency were composed of wrap-around payments which do not constitute payments resulting from an unfavorable sentence, and has thus determined that these amounts will not be accrued at June 30, 2018.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered on an individual basis. On

June 26, 2016, the court ordered the publication of a public edict that would describe in detail the process to be followed to submit claims for damages suffered. Such edict was published and opened a claims period effective August 14, 2016 through October 31, 2016. The Commonwealth plans to vigorously defend each individual case. The Commonwealth has accrued approximately $650 million for this legal contingency as of June 30, 2018.

Under the lawsuit *Vaquería Tres Monjitas, Inc. et al v. Ramírez et al.*, certain plaintiffs alleged that the price rates set by the Administrator of the Office for the Regulation of the Dairy Industry (ORIL, as its Spanish acronym) did not afford local dairy processors Suiza Dairy and Vaquería Tres Monjitas the opportunity to make the reasonable profit to which they were constitutionally entitled. The parties reached a settlement agreement on October 29, 2013. Among other things, the Commonwealth, through certain of its instrumentalities, agreed to contribute the following amounts to certain regulatory accrual payments to be made pursuant to the settlement agreement: $50 million by December 31, 2014, $15 million by December 31, 2015, $15 million by December 31, 2016, and $15 million by December 31, 2017, for a total original amount accrued by the Commonwealth during fiscal year 2014 of $95 million. The case is now closed, but the court will retain jurisdiction in order to tend to any matter of compliance or breach of compliance regarding the settlement agreement. During fiscal year 2015, 2016 and 2017 the Commonwealth has paid $31 million, out of the required $95 million. As of June 30, 2018, the Commonwealth has accrued $64 million for this legal contingency for the portions not paid. The total amount is recorded as due and payable within the general fund. There are currently proceedings before the Title III Court with respect to the manner in which these claims should be liquidated.

On December 21, 2012, the federal government, through the U.S. Department of Justice (USDOJ), filed a lawsuit in order to demand from the Commonwealth and its PRPOB, compliance with the action and remediation plan submitted on September 8, 2011 by the Civil Rights Division of the USDOJ pursuant to an investigation which revealed a pattern of civil rights violations by the PRPOB. According to this investigation and resulting report, the pattern or practice of illegal activity is the product of an ongoing failure by the Commonwealth and its PRPOB to provide officers with the necessary guidance, training, and tools to engage in constitutional and effective law enforcement. The federal government was seeking declaratory and equitable relief to eliminate this unlawful pattern by asking the Commonwealth and its PRPOB to adopt and implement policies and procedures in the areas of recruitment, hiring, promotions, policies, training, supervision, investigation, discipline, and to prevent the police officers from depriving persons of rights, privileges, or immunities secured and protected by the Constitution or laws of the United States. Although the claim does not include damages, the action and remediation plan proposed would require an investment of approximately $600 million, which is expected to be incurred over a period of 10 years, starting with fiscal year 2015. The Secretary of Justice of the Commonwealth is still negotiating the final determinations of the measures to be implemented by the PRPOB in terms of final costs and timeframe. On July 17, 2013, a final definitive agreement was reached between the USDOJ and the Commonwealth. Under the settlement agreement, the court dismissed the claim, but retained jurisdiction to ensure compliance with the agreement, through the appointment of a Technical Compliance Advisor. No provision for any liability is required at this time under this remediation plan. Expenditures and related liabilities will be recognized as costs are incurred during the execution of the remediation plan, which began in fiscal year 2015.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Final Rule (Uniform Guidance), usually referred to as OMB "Super Circular" all of which are performed at the individual

department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. As of June 30, 2018, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $57.4 million as other long-term liabilities in the accompanying statement of net position. Expenditures that are still subject to audit could be disallowed, but management believes any such future disallowances would not be material to the basic financial statements.

(b) Civil Actions Filed by Several Bondholder Groups and Other Creditors Against the Commonwealth Prior to the Commencement of the Title III Cases.

Several groups of bondholders, monoline insurers, and indenture trustees filed claims contesting the constitutionality of the Moratorium Act, among other things. These lawsuits were stayed from June 30, 2016 through May 1, 2017 under the Title IV stay and re-stayed upon commencement of the Title III cases. For additional information regarding the Moratorium Act, refer to Note 3. The key cases that remain subject to the PROMESA automatic stay and have not otherwise been dismissed include, among others:

- *Assured Guar. Corp. v. Garcia Padilla*, Case No. 16-1037-FAB (D.P.R. Jan. 7, 2016)
- *Fin. Guar. Ins. Co. v. Garcia Padilla*, Case No. 16-1095-FAB (D.P.R. Jan. 19, 2016)
- *Brigade Leveraged Capital Structures Fund Ltd. v. Garcia Padilla*, Case No. 16-1610-FAB (D.P.R. Apr. 4, 2016)
- *Ambac Assurance Corp. v. Puerto Rico Highways and Trans. Auth.*, Case No. 16-1893-FAB (D.P.R. May 10, 2016)
- *Nat'l Pub. Fin. Guar. Corp. v. Garcia Padilla*, Case No. 16-2101-FAB (D.P.R. Jun. 15, 2016)
- *Jacana Holdings I LLC v. Puerto Rico*, Case No. 16-4702-GHW (S.D.N.Y. Jun. 21, 2016)
- *U.S. Bank Trust Nat'l Ass'n v. Garcia Padilla*, Case No. 16-2510-FAB (D.P.R. Aug. 19, 2016)
- *Scotiabank de Puerto Rico v. Garcia Padilla*, Case No. 16-2736-FAB (D.P.R. Sept. 28, 2016)
- *Servidores Públicos Unidos v. Fin. Oversight and Mgmt. Bd. for Puerto Rico*, Case No. 17-1483-FAB (D P.R. Apr. 12, 2017)
- *Ambac Assurance Corp. v. Commonwealth of Puerto Ric*o, Case No. 17-1567 (D.P.R. May 1, 2017)
- *Ambac Assurance Corp. v. Commonwealth of Puerto Rico*, Case No. 17-1568 (D.P.R. May 2, 2017)
- *Ambac Assurance Corp. v. U.S. Dept. of the Treasury*, Case No. 17-0809 (D.D.C. May 2, 2017)
- *Aurelius Investment, LLC v. Commonwealth of Puerto Rico*, Index No. 652357/2017 (N.Y. Sup. Ct. May 2, 2017)
- *Asociacion Puertorriquena de la Judicatura v. Financial Oversight and Management Board for Puerto Rico, Case No. 17-1580 (D.P.R. May 3, 2017)*

(c) Key Civil Actions Filed Against the Commonwealth After the Commencement of the Title III Cases

A significant number of adversary proceedings have been initiated against the Commonwealth, COFINA, PRHTA, ERS, PREPA, and PBA after the commencement of their Title III Cases seeking judicial determinations regarding the scope of various creditor security interests in the Title III debtors' assets, among other relief that could impact creditor priorities in a Title III plan of adjustment. The actions likely to have the most impact on the Title III Cases are summarized below.

- *Employees Ret. Sys. of the Gov't of the Commonwealth of Puerto Rico v. Altair Global Credit Opportunities Fund (A), LLC, et al.,* Case No. 17-00213 (D.P.R. July 21, 2017)

  On July 21, 2017, the Oversight Board, as representative of ERS in its Title III case, commenced an adversary proceeding challenging the ERS bondholders' security interests in various ERS assets through a declaratory relief action (the ERS Declaratory Relief Action). Through the ERS Declaratory Relief Action, the Oversight Board, as representative of ERS in its Title III case, sought declaratory relief challenging the validity, priority, extent, and enforceability of the prepetition and post-petition liens and security interests asserted by defendants with respect to bonds issued by ERS. The complaint contends that ERS bondholders' alleged liens and security interests are not perfected because the required UCC financing statements and subsequent amendments were defective, and therefore the liens could be avoided in the Title III case. The ERS Declaratory Relief Action also challenged, among other things, the ERS bondholders' alleged security interest in post-petition employer contributions.

  On August 17, 2018, the Title III Court granted partial summary judgment in favor of ERS. The Title III Court held, among other things, that the ERS bondholders' liens are not perfected and their security interests are avoidable under Bankruptcy Code section 544. On September 5, 2018, the Title III Court entered an order dismissing the remaining counts and counterclaims. This decision was appealed to the United States Court of Appeals for the First Circuit (the First Circuit).

  On January 30, 2019, the First Circuit (i) affirmed the Title III Court's holding that the 2018 financing statements related to ERS's bonds did not perfect the ERS bondholders' security interest in pledged property, (ii) affirmed the dismissal of the ERS bondholders' claim regarding a January 2017 stipulation, and (iii) reversed the Title III Court by finding that the ERS bondholders met the requirement for perfection beginning on December 17, 2015. In addition, the First Circuit remanded certain counterclaims to the Title III Court for further consideration. On April 30, 2019, the Oversight Board, on behalf of ERS, filed a petition for a writ of certiorari with the United States Supreme Court, seeking to reverse the First Circuit's decision. The petition was denied on October 7, 2019.

  On remand, ERS requested that the Title III Court (i) determine the undecided issue of whether the ERS bondholders' security interests attach to revenues received by ERS after commencement of its Title III case (the Post-Petition Revenue Issue) and (ii) grant it leave to file an amended adversary complaint to raise issues concerning the nature or extent of the ERS bondholders' security interests. On May 6, 2019, the Title III Court agreed to determine the Post-Petition Revenue Issue, but denied ERS's request for leave to amend its complaint. On June 27, 2019, the Title III Court granted summary judgment in favor of ERS on the Post-Petition Revenue Issue, holding that Bankruptcy Code section 552 prevents the ERS bondholders' security interests from attaching to revenues received by ERS post-petition, and finding that employers' contributions are not "special revenues" within the meaning of Bankruptcy Code section 902. On July 18, 2019, the ERS bondholders appealed the Title III Court's decision to the First Circuit. On January 30, 2020, the First Circuit affirmed the Title III Court's decision. On March 3, 2020, the First Circuit denied the ERS bondholders' petition for rehearing en banc. On July 31, 2020, the ERS bondholders filed a cert petition in the United States Supreme Court, which was denied on November 16, 2020.

- *Andalusian Global Designated Activity Co., et al. v. Commonwealth of Puerto Rico, et al., Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R. July 27, 2017)*

  On July 27, 2017, a group of ERS bondholders commenced adversary proceedings against the Commonwealth and ERS in the cases initially captioned as *Altair Global Credit Opp. Fund (A), LLC, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R.

July 27, 2017) (collectively, the PayGo Litigation), seeking a declaration that Joint Resolution 188 and Act 106-2017 (collectively, the PayGo Statute)—which requires ERS to liquidate its assets for distribution to the General Fund—are void *ab initio* because they violate the Title III automatic stay and the Contracts Clause and Takings Clause of the United States Constitution.

On November 17, 2017, the Oversight Board, as representative of ERS in its Title III case and joined by FAFAA and the Retiree Committee, filed a motion to dismiss the PayGo Litigation. On February 2, 2018, the Title III Court issued an order informing the parties that the motion to dismiss would be taken under submission. On September 9, 2018, the Title III Court stayed the case pending the United States Court of Appeals for the First Circuit's decision on the summary judgment appeal in the ERS Declaratory Relief Action, which decision was rendered on January 30, 2019 (as discussed above). In light of the stay, on September 27, 2018, the Title III Court terminated the motion to dismiss without prejudice to its restoration on request following termination of the stay. No parties have moved to lift the stay.

On March 1, 2019, the Title III Court dismissed this case without prejudice as to Altair Global Credit Opportunities Fund (A), LLC and Nokota Capital Master Fund, L.P. As a result, the case was re-captioned *Andalusian Global Designated Activity Co. et al v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R.). On March 5, 2019, the Title III Court entered an order allowing Crown Managed Accounts (for and on behalf of Crown/PW SP), LMA SPC (for and on behalf of Map 98 Segregated Portfolio), Oceana Master Fund Ltd., Pentwater Merger Arbitrage Master Fund Ltd., and PWCM Master Fund Ltd. to intervene in the adversary proceeding. On October 25, 2019, the ERS bondholders filed a motion to inform the Title III Court that they filed a response to certain arguments concerning the validity of bonds issued by ERS raised in the ERS Bond Claims Objections, which relate to the ultra vires arguments raised in the Oversight Board's motion to dismiss the PayGo Litigation. In light of ongoing related litigation before the Title III Court and inactivity in these adversary proceedings, the Title III Court administratively closed the PayGo Litigation for statistical purposes pending determinations in related proceedings.

On April 2, 2021, the Oversight Board and certain ERS bondholders entered into the ERS Stipulation (as defined and discussed in Note 3(c)(iii) above). As agreed in the ERS Stipulation, the Oversight Board filed a motion on April 5, 2021 seeking a stay of various ERS-related litigation (including this action) pending the adjudication of the plan of adjustment for the Commonwealth, ERS, and PBA. On April 12, 2021, the Title III Court granted the motion and stayed this action until further notice.

- *Union de Trabajadores de la Industria Electrica y Riego (UTIER) v. Puerto Rico Elec. Power Auth., et al.*, Case No. 17-00229-LTS (D.P.R. Aug. 7, 2017)

  Plaintiff UTIER challenges the constitutionality of four Commonwealth statutes and the 2017 Commonwealth and PREPA Fiscal Plans and Budgets that allegedly "adopt" and "implement" those statutes, arguing that they violate the terms of a collective bargaining agreement between UTIER and PREPA. The motion to dismiss was fully briefed as of March 28, 2018. On September 26, 2018, the Title III Court entered an order granting in part and denying in part the motions to dismiss the amended complaint. On December 17, 2018, the remaining defendants answered the amended complaint. UTIER filed a second amended complaint on August 30, 2019, which defendants answered on October 15, 2019, and filed a third amended complaint on March 12, 2021. On April 26, 2021, PREPA filed a motion to dismiss the complaint, and on June 10, 2021, UTIER responded to such motion. PREPA's reply is due July 19, 2021. On June 1, 2021, both parties filed motions for summary judgement. The briefing schedule for dispositive motions is set to go through September 27, 2021. As of the date hereof, this litigation remains ongoing.

- *The Official Committee of Unsecured Creditors of the Commonwealth of Puerto Rico as Agent of The Commonwealth of Puerto Rico v. Bettina Whyte as Agent of COFINA (In re: The Financial Oversight and Management Board for Puerto Rico)*, Adv. Pro. No. 17-00257-LTS (D. P.R. Sept. 8, 2017) and Confirmation of the Third Amended Title III Plan of Adjustment of the Puerto Rico Sales Tax Financing Corporation.

  On September 8, 2017, an agent for the Oversight Board as representative of the Commonwealth in its Title III Case (the Commonwealth Agent) filed a complaint (the Commonwealth-COFINA Dispute) against an agent for COFINA (the COFINA Agent) asserting that the SUT revenue pledged by COFINA to secure its bond debt (the Former Pledged Sales Taxes) are "the exclusive property of the Commonwealth" and that Act No. 91-2006 "did not transfer to [COFINA] present ownership of future SUT revenues" and did not assign to COFINA the Commonwealth's right to receive such revenues. Concurrently with the litigation of the adversary proceeding, the Agents participated in court-sanctioned mediation to settle the Commonwealth-COFINA Dispute that resulted in an Agreement in Principle on June 5, 2018. Under the Agreement in Principle, a portion of the 5.5% SUT revenue formerly allocated to COFINA—which portion is referred to as the "Fixed Income"—would be shared between COFINA and the Commonwealth. The Agreement in Principle proposed to, among other things, divide the Fixed Income so that COFINA receives 53.65% of the Fixed Income starting in fiscal year 2019 while the Commonwealth receives the other 46.35%, subject to certain restrictions and exceptions.

  On February 4, 2019, the Title III Court entered an order approving a settlement agreement consistent with the Agreement in Principle resolving the Commonwealth-COFINA Dispute (the Settlement Agreement). On February 5, 2019, the Title III Court confirmed the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation [Case No. 17-3283, Docket No. 4652] (the COFINA Plan of Adjustment), which was substantially consummated and became effective on February 12, 2019. The COFINA Plan of Adjustment, among other things, implemented the terms of the Settlement Agreement and resolved previously stayed prepetition actions challenging the constitutionality of the Moratorium Act related to COFINA's prepetition bond debt, including *Lex Claims, LLC v. Garcia Padilla*, Case No. 16-2374 FAB (D.P.R. Jul. 20, 2016) and *Rodríguez Perelló v. Rosselló Nevares*, Case No. 17-1566 (D.P.R. May 1, 2017).

  Certain parties whose objections were overruled in confirming the COFINA Plan of Adjustment have appealed the confirmation of the COFINA Plan of Adjustment and Settlement Agreement in the United States Court of Appeals for the First Circuit under case numbers 19-1181, 19-1182, and 19-1391. On February 8, 2021, the First Circuit denied these appeals and affirmed the Title III Court's confirmation of the COFINA Plan of Adjustment and Settlement Agreement. On April 7, 2021, those parties filed a petition for certiorari seeking review of the First Circuit's decision with the United States Supreme Court, which remains pending. Accordingly, there are ongoing legal challenges to the COFINA Plan of Adjustment that, if resolved adversely to COFINA, could, among other things, affect the validity of the Settlement Agreement and other plan provisions.

- *Medicaid Payment Litigation*

  On November 17, 2017, a group of domestic non-profit corporations filed an adversary proceeding styled *Atlantic Medical Center, Inc. et al., v. Commonwealth of Puerto Rico*, Adv. Pro. No. 17-00278-LTS (D.P.R. Nov. 17, 2017), alleging that the Commonwealth is obligated to pay them for services provided in furtherance of the Commonwealth's Medicaid program and such payments are non-dischargeable under PROMESA and otherwise unimpaired by the Commonwealth's filing of its Title III case.

Similarly, in December 2017, Corporación de Servicios Integrales de Salud del Area de Barranquitas, Comerío, Corozal, Naranjito y Orocovis (CSI), a federally-qualified health center that operates in Puerto Rico, filed two adversary proceedings against the Commonwealth of Puerto Rico styled *Corporación de Servicios Integrales de Salud del Area de Barranquitas, Comerío, Corozal, Naranjito y Orocovis (Corporación de Servicios) v. Commonwealth of Puerto Rico*, Case No. 17-00292-LTS (D.P.R. 2017) and *Corporación de Servicios Integrales de Salud del Area de Barranquitas, Comerío, Corozal, Naranjito y Orocovis v. Commonwealth of Puerto Rico*, Case No. 17-00298 (D.P.R. Dec. 28, 2017). In these proceedings, CSI seeks declaratory judgments that (1) its claims in Salud Primaria are non-dischargeable under PROMESA and otherwise unimpaired by the Commonwealth's filing of its Title III case, (2) sections 28 and 29 of Act No. 66 of 2014 violate CSI's substantive and procedural due process rights, as well as violate the contracts clause and the takings clause, and are preempted by Bankruptcy Code section 903, PROMESA section 202, and Medicaid law; and (3) nothing in PROMESA allows the non-payment of federal obligations by the Commonwealth and that PROMESA actually requires payment of the Commonwealth's contractual obligations with plaintiff and the associated state court judgments.

On February 2, 2018, the Title III Court consolidated cases 17-00278-LTS and 17-00292-LTS, which were both dismissed by an order entered on November 27, 2018. On appeal, the United States Court of Appeals for the First Circuit remanded the cases on March 23, 2020 to the Title III Court for reconsideration of its ripeness ruling in light of the filing of the Amended Plan and the changed circumstances since November 2018. The First Circuit expressed no opinion on whether the Title III Court erred by dismissing the claims as unripe as of November 2018, nor whether the claims are ripe as of March 2020. The issues pending on remand have not yet been briefed.

As for case number 17-00298-LTS, a motion to dismiss has been fully briefed, but the Title III Court has stayed the motion pending resolution of the issues in the consolidated cases.

- *Cooperativa de Ahorro y Credito Abraham Rosa, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. No. 18-00028-LTS (D. P.R. Mar. 22, 2018)

On March 22, 2018, several credit unions chartered under Puerto Rico law, known as the cooperativas (the Cooperativas), filed an adversary complaint against the Commonwealth, the Oversight Board, and other Commonwealth's instrumentalities (including COFINA, PRHTA, ERS, and PREPA), seeking a declaratory judgment that their Puerto Rico debt holdings are not dischargeable and seeking monetary damages for alleged fraud in issuing and encouraging local credit unions to purchase Puerto Rico debt service instruments. On August 6, 2018, the Oversight Board, for itself and as representative of COFINA, the Commonwealth and certain other instrumentalities, moved to dismiss the complaint. Also, on August 6, 2018, GDB filed a separate motion to dismiss. In addition, several parties filed joinders to the motions to dismiss or were granted leave from the Title III Court to file joinders.

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment. The confirmation order provides that "the plaintiffs in that certain adversary proceeding before the Title III Court, captioned *Cooperativa de Ahorro y Credito Abraham Rosa, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Proc. No. 18-00028, shall be entitled to continue pursuit of such litigation against all parties other than COFINA and Reorganized COFINA, subject to all available rights and defenses with respect to claims and causes of action asserted therein."

The Cooperativas filed a Notice of Appeal in the Title III Court and amended their previously filed adversary complaint in response to the confirmation of the COFINA Plan of Adjustment and after

their motion to reconsider the confirmation of the COFINA Plan of Adjustment was denied by the Title III Court. The appeal is docketed with the First Circuit under case number 19-1391.

Motions to dismiss this adversary proceeding are pending in the Title III court.

- *Assured Guaranty Corp., et al. v. Commonwealth of Puerto Rico, et al.*, Case No. 18-00059-LTS (D.P.R. May 23, 2018)

  On May 23, 2018, plaintiffs filed a complaint against the Commonwealth, the Oversight Board, FAFAA, the Governor, the Executive Director of FAFAA, and Raúl Maldonado Gautier (in his official capacity) seeking fourteen different forms of declaratory relief, which seek declaratory judgments that (1) the Revised Fiscal Plan and Compliance Law violate several sections of PROMESA; (2) the Revised Fiscal Plan violates section 928 of the Bankruptcy Code; (3) no plan of adjustment based on the Revised Fiscal Plan can be confirmed, and the court will not hold a confirmation hearing; (4) the Moratorium Act, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are void because they (a) violate the Contract Clause, (b) violate the Takings and Due Process clauses, and (c) are preempted by Sections 303(1) and 303(3) of PROMESA; and (5) to the extent the court determines that PROMESA bars review of the Commonwealth fiscal plan, PROMESA violates the Due Process Clause and constitutes an unconstitutional delegation of legislative power. Defendants have yet to respond to the complaint. On August 13, 2018, the court stayed the litigation and ordered that the deadline to file a motion to dismiss will be 30 days after the United States Court of Appeals for the First Circuit renders an opinion in the appeal of *Ambac Assurance Corporation v. Commonwealth of Puerto Rico, et al.*, No. 17-00159-LTS (D.P.R. Jun. 8, 2017). On September 6, 2019, the Title III Court entered an order staying this adversary proceeding through November 30, 2019 and requiring mediation in the manner established under the Title III Court's July 24 Stay Order. By orders entered on October 28, 2019, December 27, 2019, and March 10, 2020, the Title III Court has further stayed this action pending its decision on confirmation of the plan of adjustment for the Commonwealth, ERS, and PBA.

- *Hermandad de Empleados del Fondo del Seguro del Estato, Inc. et al. v. Commonwealth of Puerto Rico*, Case No. 18-00091-LTS (D.P.R. July 25, 2018)

  On July 25, 2018, Hermandad de Empleados del Fondo del Seguro del Estado, Inc. (UECFSE) and Unión de Médicos de la Corporación del Fondo del Seguro del Estado Corp. (UMCFSE) filed a complaint against the Commonwealth, the Oversight Board, the State Insurance Fund Corporation, Jesus M. Rodriguez Rosa, the Governor, the Executive Director of FAFAA, Hon. Raul Maldonado Gautier, Jose Ivan Marrero Rosado, and Natalie A. Jaresko seeking an order that CFSE is a protected essential public service, that four acts of the Commonwealth Legislature violate the Contract Clause of the United States Constitution, that four acts of the Commonwealth Legislature violate the Rights to Collective Bargaining of the Commonwealth's Constitution, and an order declaring the Commonwealth fiscal plan (as certified on June 29, 2018) unconstitutional and in violation of the Contract Clause of the United States and Commonwealth Constitutions. Plaintiffs filed an Amended Complaint on October 29, 2018, seeking relief only as it relates to the four Commonwealth Legislature Acts (Acts 66-2014, 3-2017, 8-2017, and 26-2017) as allegedly violating the U.S. and Commonwealth Constitutions.

  The Title III court dismissed this adversary proceeding. The dismissal was affirmed by the United States Court of Appeals for the First Circuit.

- *The Fin. Oversight and Mgmt. Bd. for Puerto Rico v. Puerto Rico Public Building Auth.*, Case No. 18-00149-LTS (D.P.R. Dec. 21, 2018)

On December 21, 2018, the Oversight Board and the Creditors' Committee filed an adversary proceeding against PBA seeking declaratory relief and disallowance of administrative rent claims, alleging that PBA leases are not true leases, but rather "disguised financing transactions." Multiple parties have filed motions to intervene. On January 28, 2019, PBA responded to the complaint. On June 27, 2019, the Oversight Board filed a motion to stay this adversary proceeding pending confirmation of the Commonwealth's Title III plan of adjustment. On July 24, 2019, the Title III Court entered an order staying this adversary proceeding (among other matters in the Title III cases) through November 30, 2019. By orders entered on October 28, 2019, December 27, 2019, and March 10, 2020, the Title III Court has further stayed this action pending its decision on confirmation of the plan of adjustment for the Commonwealth, ERS, and PBA.

- *Manuel Natal-Albelo, et al. v. The Fin. Oversight and Mgmt. Bd. for Puerto Rico,* Case No. 19-00003-LTS (D.P.R. Jan. 14, 2019)

  On December 6, 2018, Manuel Natal Albelo, at-large independent representative in the House of Representatives of Puerto Rico and various unions filed a complaint against the Commonwealth of Puerto Rico and Carlos Mendez Nuñez, in his official capacity as President of the House of Representatives of Puerto Rico in the Commonwealth of Puerto Rico Court of First Instance, San Juan Superior Court (the Superior Court) (Civil No. SJ2018cv01569). The complaint seeks declaratory relief that (i) the legislative process leading to the enactment of Act No. 241-2018, which created the legal structure necessary to execute the COFINA restructuring, was flawed, violated Puerto Rico House regulations, and thus was unconstitutional; and (ii) Act No. 91-2006 (the COFINA legislation, as amended) and Act No. 241-2018 (which is an amendment to the COFINA legislation), violate the Commonwealth's Constitution's debt-limit and balanced-budget provisions.

  After various years of litigation, on April 9, 2021. On April 9, 2021, the plaintiffs filed a voluntary request to withdraw the complaint as to all remaining claims.

- *The Fin. Oversight & Mgmt. Bd. for Puerto Rico v. Blackrock Fin. Mgmt., Inc., et al.*, Case No. 19-00297 (D.P.R. May 2, 2019)

  On May 2, 2019, the Commonwealth and the Oversight Board commenced an adversary proceeding against various GO bondholders seeking declaratory relief that the GO bondholder defendants do not hold consensual or statutory liens on certain Commonwealth Available Resources, Property Tax Revenues, and Allocable Revenues. The Commonwealth and the Oversight Board also argue that even if defendants have statutory liens, the Title III Court should enter judgments avoiding the liens under Bankruptcy Code section 545. On June 11, 2019, defendants filed a motion to dismiss. On July 24, 2019, the Title III Court stayed the adversary proceeding through November 30, 2019 and required mandatory mediation. By orders entered on October 28, 2019, December 27, 2019, and March 10, 2020, the Title III Court has further stayed this action pending its decision on confirmation of the plan of adjustment for the Commonwealth, ERS, and PBA.

- *ERS Clawback Litigation*, Case Nos. 19-00355, 19-00356, 19-00357, 19-00358, 19-00359, 19-00360, and 19-00361-LTS (D.P.R. May 19, 2019)

  On May 19, 2019, the Creditors' Committee and the Oversight Board, acting through its Special Claims Committee, commenced seven adversary proceedings (collectively, the ERS Clawback Litigation) against approximately 230 defendants that owned or currently own ERS bonds. The plaintiffs seek declaratory relief relating to the ERS bonds and recovery of certain payments of principal and interest on the ERS bonds. On May 21, 2019, the plaintiffs filed a motion requesting that the Title III Court enter an order (i) extending the period for serving domestic defendants in the ERS Clawback Litigation to November 18, 2019, and (ii) otherwise staying the ERS Clawback

Litigation pending a joint request by both plaintiffs to resume a particular proceeding or further order of the Title III Court.

After years of litination, on April 2, 2021, the Oversight Board and certain ERS bondholders entered into the ERS Stipulation (as defined and discussed in the Commonwealth Title III section above). As agreed in the ERS Stipulation, the Oversight Board filed a motion on April 5, 2021 seeking a stay of various ERS-related litigation (including the ERS Clawback Litigation) pending the adjudication of the Second Amended Plan or any further amended plan. On April 12, 2021, the Title III Court granted the motion and stayed the ERS Clawback Litigation until further notice.

- *Lien-Scope Adversary Proceedings, Adv. Pro. Nos. 19-00366-LTS (D.P.R.) and 19-00367-LTS (D.P.R. May 20, 2019)*

  On May 20, 2019, ERS and the Creditors' Committee commenced separate adversary proceedings (collectively, the Lien-Scope Actions) against the Fiscal Agent and certain beneficial owners of the ERS Bonds, alleging that the defendants do not hold valid and enforceable security interests in any of ERS's remaining assets or the proceeds thereof (except certain accounts receivable).

  On July 24, 2019, the Title III Court entered the Stay Order, which stayed the Lien-Scope Actions through November 30, 2019, and required mandatory mediation of the issues during the stay period. On October 18, 2019, the parties to the Lien-Scope Actions jointly filed a motion and stipulated order seeking to modify the Stay Order by allowing for issues regarding the scope of the ERS bondholders' liens raised in the complaints to proceed.

  On April 17, 2020, the Title III Court entered an order regarding the discovery and briefing schedule in the Lien-Scope Actions. The Title III Court's discovery and briefing schedule was last modified on August 25, 2020. The Oversight Board and certain defendant bondholders filed cross motions for summary judgment on September 11, 2020; summary judgment briefing was completed on November 19, 2020. As of the date hereof, the cross motions for summary judgment remain pending before the Title III Court.

  On April 2, 2021, the Oversight Board and certain ERS bondholders entered into the ERS Stipulation (as defined and discussed in the Note 3(c)(iii) section above). As agreed in the ERS Stipulation, the Oversight Board filed a motion on April 5, 2021 seeking a stay of various ERS-related litigation (including the Lien-Scope Actions) pending the adjudication of the Second Amended Plan or any further amended plan. On April 12, 2021, the Title III Court granted the motion and stayed the Lien-Scope Actions until further notice.

- *The Fin. Oversight & Mgmt. Bd. for Puerto Rico v. Vásquez-Garced, Adv. Pro. No. 19-00393 (D.P.R.) (Jul. 3, 2019)*

  On July 3, 2019, the Oversight Board filed a complaint (the Act 29 Litigation) against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 29-2019, which eliminated the obligation of municipalities to make PayGo payments to the Commonwealth, and various joint resolutions because (i) Act 29 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c); (iii) Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and (iv) the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

  On July 15, 2019, the Governor and FAFAA moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety. On September 10, 2019, the Governor

and FAFAA answered the complaint. On April 15, 2020, the Title III Court granted in part the Oversight Board's summary judgment motion, holding that Act 29 is unenforceable under PROMESA sections 204(a) and 204(c) and permanently enjoining the Commonwealth from implementing it and enforcing it.

- *Cortland Capital Mkt. Servs. LLC, et al. v. The Fin. Oversight & Mgmt. Bd. for Puerto Rico, et al., Case No. 19-00396-LTS (D.P.R. Jul. 9, 2019)*

  On July 9, 2019, Cortland Capital Market Services, LLC, as Administrative Agent and SOLA LTD, Solus Opportunities Fund 5 LP, Ultra Master LTD, and Ultra NB, LLC (the Fuel Line Lenders) filed an adversary proceeding (the Fuel Line Lenders Litigation) against the Oversight Board, PREPA, FAFAA, and U.S. Bank N.A. as Trustee to certain bondholders (the Trustee). The Fuel Line Lenders allege the PREPA bonds are not secured and the PREPA bondholders have no right to any recovery until the Fuel Line Lenders and other current expenses of PREPA are paid in full. On September 30, 2019, the Fuel Line Lenders filed an amended complaint, which added Assured Guaranty Corp., Assured Guaranty Municipal Corp., National Public Finance Guarantee Corp, and Syncora Guarantee Inc. as defendants (collectively, the Bondholder Defendants). On December 14, 2020, the parties filed a joint stipulation for dismissal with prejudice, which the court approved that same day.

- *Sistema de Retiro de los Empleados de la Autoridad v. The Fin. Oversight & Mgmt. Bd. for Puerto Rico*, Case No. 19-00405-LTS (D.P.R. Aug. 6, 2019)

  On August 6, 2019, Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica (SREAEE) filed a complaint against the Oversight Board, PREPA, FAFAA, the Commonwealth, the Governor, FAFAA's Executive Director, and U.S. Bank seeking declaratory relief that (a) all amounts owed to SREAEE are current expenses for purposes of the Trust Agreement; (b) the PREPA bondholders have no lien on revenues received by PREPA unless and until all current expenses have been paid in full; and (c) SREAEE should be paid in full all current and legacy liability before paying or agreeing to pay any PREPA bondholder. Motions to dismiss this adversary proceeding are fully briefed. On April 2, 2020, the Title III Court entered an order adjourning all deadlines and hearings in this proceeding in light of the COVID-19 crisis. On August 5, 2020, the Title III Court ordered the parties to file a status update on or before September 25, 2020, which the parties provided. The matter has been inactive since then.

- *The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al.*, Adv. Pro. No. 20-00003-LTS (D.P.R. Jan. 16, 2020)

  On January 16, 2020, the Oversight Board filed an adversary complaint challenging the proofs of claims and liens asserted against the Commonwealth by holders of bonds issued by PRIFA. The Oversight Board asserts that the Commonwealth is "neither an issuer nor a guarantor" of the bonds and thus is not liable under the PRIFA enabling act or PRIFA bond documents.

  On February 11, 2020, the Creditors' Committee filed an intervention motion. On February 27, 2020, U.S. Bank filed a motion to dismiss the complaint in part, challenging certain of the Oversight Board's constitutional and statutory legal theories. On February 27, 2020, the monoline insurers filed a motion to dismiss the complaint in part. The motions to dismiss are currently stayed. On March 2, 2020, the Court entered an order allowing in part and denying in part the Creditors' Committee's intervention motion.

  On March 10, 2020, the Title III Court entered a final case management order for revenue bonds, staying litigation of the motion to dismiss in this adversary proceeding and permitting the filing of

summary judgment motions for certain counts. On April 28, 2020, the Oversight Board filed a motion for summary judgment, contending movants lack security interests and any contrary statute is preempted by PROMESA. The Creditors' Committee filed a limited joinder. FAFAA did not file a joinder to the summary judgment motion.

On July 16, 2020, the monoline insurers filed an opposition to the Oversight Board's summary judgment motion. Replies were filed August 31, 2020. A hearing on the motion was held on September 23, 2020. On January 20, 2021, the Title III Court ordered additional discovery, which concluded on June 11, 2021. The parties will file a proposed post-discovery briefing schedule for the motions for summary judgment by the end of June 2021.

- *The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al.*, Adv. Pro. No. 20-00004-LTS (D.P.R. Jan. 16, 2020)

  On January 16, 2020, the Oversight Board filed an adversary complaint challenging the proofs of claims and liens asserted against the Commonwealth by holders of bonds issued by Puerto Rico Convention Center District Authority (the PRCCDA Bonds). The Oversight Board asserts that the defendants' proofs of claim "must be disallowed in their entirety" because "the Commonwealth is not a party to any agreement related to the Occupancy Tax Revenue, Defendants do not have any right to payment from the Commonwealth in connection with the PRCCDA Bonds, and that the bondholders' various constitutional, statutory, tort, and contractual claims fail.

  On February 11, 2020, the Creditors' Committee filed an intervention motion. On February 27, 2020, the monoline insurers and indenture trustee filed a motion to dismiss the complaint in part, challenging certain of the Oversight Board's constitutional and statutory legal theories. The motion to dismiss is currently stayed.

  On March 2, 2020, the Title III Court entered an order allowing in part and denying in part the Creditors' Committee's intervention motion. The Title III Court also entered a final case management order for revenue bonds, staying litigation of the motion to dismiss in this adversary proceeding and permitting the filing of summary judgment motions for certain counts. On April 28, 2020, the Oversight Board filed a motion for summary judgment, contending movants lack security interests and any contrary statute is preempted by PROMESA. The Creditors' Committee filed a limited joinder. FAFAA did not file a joinder to the summary judgment motion.

  On July 16, 2020, the monoline insurers filed an opposition to the Oversight Board's summary judgment motion. Replies were filed August 31, 2020. A hearing on the motion was held on September 23, 2020. On January 20, 2021, the Title III Court ordered additional discovery, which concluded on June 11, 2021. The parties will file a proposed post-discovery briefing schedule for the motions for summary judgment by the end of June 2021.

- *The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al.,* Adv. Pro. No. 20-00005-LTS (D.P.R. Jan. 16, 2020)

  On January 16, 2020, the Oversight Board, on behalf of the Commonwealth, filed an adversary complaint, alleging (i) that the Commonwealth is neither an issuer nor a guarantor of the bonds issued by PRHTA; (ii) that pursuant to the Enabling Act and PRHTA Bond Materials, the Commonwealth has no liability with respect to the bonds; and (iii) that the bondholders' proof of claims' various constitutional, statutory, tort, and contractual claims fail.

  On February 11, 2020, AmeriNational Community Services, LLC, as servicer for the GDB DRA, and Cantor-Katz Collateral Monitor LLC (together, the DRA Parties) filed an intervention motion. On the same day, the Creditors' Committee filed an intervention motion. On February 27, 2020, the PRHTA

bondholder parties filed a motion to dismiss the complaint in part, challenging certain of the Oversight Board's constitutional and statutory legal theories. The motion to dismiss is currently stayed.

On March 2, 2020, the Title III Court entered an order allowing in part and denying in part the Creditors' Committee's intervention motion. On March 10, 2020, the Court entered an order allowing in part and denying in part the DRA Parties' intervention motion. The same day, the Title III Court entered a final case management order for revenue bonds, staying litigation of the motion to dismiss in this adversary proceeding and permitting the filing of summary judgment motions for certain counts.

On April 28, 2020, the Oversight Board filed a motion for partial summary judgment, contending Movants lack security interests and any contrary statute is preempted by PROMESA. The Creditors' Committee filed a limited joinder. On July 16, 2020, the monoline insurers filed an opposition to the Oversight Board's summary judgment motion. The DRA Parties filed a response to the Oversight Board's memorandum of law in support of the summary judgment motion. Replies were filed August 31, 2020. A hearing on the motion was held on September 23, 2020. On January 20, 2021, the Title III Court ordered additional discovery, which concluded on June 11, 2021. The parties will file a proposed post-discovery briefing schedule for the motions for summary judgment by the end of June 2021.

- *The Fin. Oversight & Mgmt. Bd. for Puerto Rico, as Representative of Puerto Rico Highways and Transportation Authority, et al. v. Ambac Assurance Corp., et al.,* Adv. Pro. No. 20-00007-LTS (D.P.R. Jan. 16, 2020)

  On January 16, 2020, the Oversight Board, on behalf of PRHTA, and the Creditors' Committee filed an adversary complaint, alleging that the secured bond claims should be disallowed except as to amounts deposited to the credit of the 1968 Sinking Fund and the 1998 Resolution Funds and that the defendants' claims based on asserted constitutional and statutory violations should be disallowed in their entirety.

  On February 11, 2020, the DRA Parties filed an intervention motion. On the same day, the Creditors' Committee filed an intervention motion. On February 27, 2020, certain PRHTA bondholder parties filed a motion to dismiss the complaint in part. On the same day, Peaje Investments LLC joined the motion to dismiss. The motions to dismiss are currently stayed. On February 28, 2020, an ad hoc group of noteholders filed an intervention motion. On March 2, 2020, the Court entered an order allowing in part and denying in part the Creditors' Committee's intervention motion. On March 10, 2020, the Court entered an order allowing in part and denying in part the DRA Parties' intervention motion. The Title III Court also entered a final case management order for revenue bonds, staying litigation of the motion to dismiss in this adversary proceeding and permitting the filing of summary judgment motions for certain counts. On April 7, 2020, the Oversight Board filed a response to the ad hoc group of noteholders' intervention motion.

  The litigation of the motion to dismiss is currently stayed, and the Title III Court did not permit the filing of summary judgment motions in this adversary proceeding.

- *Key Bondholder Lift Stay Motions, Case No. 17-3283-LTS (D.P.R. Jan. 16, 2020)*

  On January 16, 2020, the monoline insurers for bonds issued by PRIFA, PRCCDA, and PRHTA filed three separate motions seeking to lift the automatic stay, or in the alternative, for adequate protection of their alleged security interests in applicable pledged revenue. In the PRIFA motion, the monoline insurers assert that the Commonwealth is not entitled to use revenues generated from rum taxes, which they assert were pledged to PRIFA bondholders as collateral. The PRIFA motion seeks relief

from stay to pursue enforcement of the PRIFA bondholders' alleged liens against the rum tax revenues in two proceedings outside of the Title III cases. In the PRCCDA motion, the monoline insurers argue that the PRCCDA bondholders have a lien against certain hotel occupancy taxes collected by the Tourism Company and seek a lift of the automatic stay to bring an action to enforce their alleged liens. In the PRHTA motion, the monoline insurers assert that the PRHTA bondholders are secured by (i) toll revenues collected by PRHTA, and (ii) excise taxes collected by the Commonwealth. The PRHTA motion seeks relief from the stay because PRHTA and the Commonwealth allegedly do not have any equity in the toll revenues or excise taxes.

On February 4, 2020, the Oversight Board (as joined by FAFAA) objected to each of the stay motions. The monoline insurers' filed their replies on April 30, 2020. On September 9, 2020, the Title III Court denied all stay relief sought in the motions.

On July 2, 2020, the Title III court declined to lift the automatic stay imposed by PROMESA on PRHTA and PRIFA bondholders. With respect to PRCCDA, Judge Swain confirmed that collection on PRCCDA debt is also subject to the automatic stay, though there will be further litigation on whether the bank account into which certain PRCCDA revenue is deposited is subject to bondholders' liens.

On July 10, 2020, the Title III Court ordered further briefing to address (i) whether "cause" exists under Bankruptcy Code section 362(d)(1) (as incorporated under PROMESA) to lift the automatic stay; and (ii) in the case of the PRCCDA lift stay motion only, whether stay relief is warranted under Bankruptcy Code section 362(d)(2) (also as incorporated under PROMESA).

On September 9, 2020, the Title III Court denied the PRHTA and PRIFA lift stay motions and stayed the PRCCDA lift stay motion pending a final ruling in the PRCCDA adversary proceeding (Adv. Pro. No. 20-00004). On September 23, 2020, the PRHTA and PRIFA bondholders appealed the Title III Court's denial of the lift stay motions to the First Circuit. The First Circuit denied the appeal on March 3, 2021.

- *Ambac Assurance Corp. v. The Fin. Oversight & Mgmt. Bd. for Puerto Rico, et al., Adv. Pro. No. 20-00068-LTS (D.P.R. May 26, 2020)*

  On May 26, 2020, Ambac filed an adversary complaint against the Oversight Board and its members, alleging that PROMESA is unconstitutional because it violates the United States' Constitution's Bankruptcy Clause's uniformity requirement. On July 9, 2020, FAFAA filed a motion to intervene. On July 31, 2020, the Title III court entered an order granting, in part, the motion to intervene and authorized and empowered FAFAA to be heard on the merits of any motion filed by the named parties to the adversary proceeding. On August 17, 2020, the Oversight Board filed a motion to dismiss Ambac's complaint, and on August 18, 2020, FAFAA filed a brief in support of the motion to dismiss. After the matter was fully briefed, on January 12, 2021, the Title III court held a hearing on the motion to dismiss and took the motion under advisement.

- *Vázquez Garced and the Puerto Rico Fiscal Agency and Fin. Advisory Auth. v. The Fin. Oversight & Mgmt. Bd. for Puerto Rico (In re the Fin. Oversight & Mgmt. Bd. for Puerto Rico), Adv. Pro. Nos. 20-00080-LTS, 20-00082-LTS, 20-00083-LTS, 20-00084-LTS, 20-00085-LTS (D.P.R. June 12, 2020)*

  In late 2019 through early 2020, the Oversight Board rejected several of the Government's compliance certificates for newly enacted territorial legislation. On June 12, 2020, the Governor and FAFAA filed five adversary complaints, requesting declaratory and injunctive relief related to Act 82-2019, Act 138-2019, Act 176-2019, Act 181-2019, and Act 47-2020 (the Five Acts). In each of the proceedings, the Governor and FAFAA sought declaratory judgments that (i) the compliance

certification for each of the five acts satisfies PROMESA's requirements and (ii) the Oversight Board cannot unilaterally enjoin the implementation and enforcement of new laws, including each of the five acts. On July 17, 2020, the Oversight Board filed answers and counterclaims in each of the five proceedings. On August 3, 2020, the Governor and AAFAF answered the counterclaims.

On September 28, 2020, the Government moved for summary judgment on its claims related to Acts 138 and 176 (Adv. Pro. Nos. 20-00082-LTS and 20-00083-LTS). On October 19, 2020, the Oversight Board filed a cross-motion for summary judgment on all claims and counterclaims related to Acts 138 and 176. On October 5, 2020, the Oversight Board moved for summary judgment on all claims and counterclaims related to Acts 82, 181, and 47 (Adv. Pro. Nos. 20-00080-LTS, 20-00084-LTS, and 20-00085-LTS). On December 23, 2020, the Title III Court issued a ruling enjoining the Government from implementing and enforcing the Five Acts, and on January 7, 2021, dismissed the remaining counts and counteractions.

On January 21, 2021, the Government appealed the Title III Court's December 23, 2020 order to the First Circuit under Case No. 21-01071. The appeal will be fully briefed by August 10, 2021.

On February 4, 2021, the parties filed a motion requesting the Court to modify its ruling with respect to Act 181-2019, to allow implementation of the salary increase for Commonwealth firefighters, conditioned on the Government complying with enumerated terms set forth in a stipulation. The Title III Court approved the stipulation on February 5, 2021.

- *La Liga de Ciudades de P.R. v. The Fin. Oversight & Mgmt. Bd. for P.R., Adv. Pro. No. 21-00026-LTS (D.P.R. March 14, 2021)*

  On March 14, 2021, La Liga de Ciudades de Puerto Rico (La Liga), a non-profit corporation claiming to have as members mayors of Puerto Rico's municipalities, filed a complaint against the Oversight Board, FAFAA, the Municipal Revenues Collection Center (CRIM), the Puerto Rico Health Insurance Administration (ASES), and Luis M. Collazo Rodríguez, in his capacity as administrator of ERS (collectively, Defendants). The complaint alleges that CRIM, ASES, and ERS are collecting and withholding money from Puerto Rico's municipalities based on an incorrect interpretation of an order entered in the Act 29 Litigation (discussed above), in which the Title III Court declared Act 29 "unenforceable and of no effect."

  After the order in the Act 29 Litigation went into effect, CRIM held back funds that otherwise would have been disbursed to the municipalities in order to pay ASES and ERS the health care and retirement contributions that, but for Act 29, would have been made during the period prior to the effective date of the Act 29 Litigation order. La Liga contends those debts are "inexistent," because the order did not apply retroactively. Accordingly, La Liga seeks (i) a declaratory judgment "decreeing that the debts claimed by CRIM, ASES and [ERS] … are "inexistent" and that the withholdings made by CRIM to purportedly offset those inexistent debts are "illegal", (ii) an injunction "prohibiting Defendants from collecting from the [m]unicipalities any of the monies that Law 29 exempted them" from paying prior to the effective date of the order, (iii) an order requiring CRIM to immediately disburse any funds withheld to pay for the Act 29-related debts, and (iv) an order requiring ERS and ASES to return to CRIM "any and all monies" received to pay the purported debts.

  On May 14, 2021, the Oversight Board and FAFAA (on behalf of the other government defendants) filed separate motions to dismiss. Under the current schedule, briefing on the motion to dismiss will be completed on July 14, 2021.

- *UTIER v. Pierluisi-Urrutia, Adv. Pro. No. 21-00041-LTS (D.P.R. April 20, 2021)*

On April 20, 2021, UTIER, a labor union representing PREPA employees, Ángel Figueroa Jaramillo as UTIER's President, Freddyson Marrtínez-Estevez as UTIER's Vice-President, Ralphie Dominicci-Rivera, Waldo Rolón, and Ronald Vázquez as Vice President of the Retirees Chapter of UTIER, (collectively, Plaintiffs) filed a complaint against the Governor, the Commonwealth, PREPA, the Oversight Board as a representative of PREPA, Ralph A. Kreil-Rivera as President of the Governing Board of PREPA, Efran Paredes-Maysonet as Executive Director of PREPA, Puerto Rico Public Private Partnership Authority (P3), Fermín Fontanés-Gómez as Executive Director of P3, FAFAA, Omar J. Marrero- Díaz as Executive Director of FAFAA, Luma Energy LLC, Luma Energy Servco, LLC, (together with Luma Energy LLC, Luma) and Wayne Stensby as President and CEO of Luma. The complaint challenges the LUMA Energy Operation and Maintenance Agreement (the O&M Agreement), which transfers the operation and maintenance of PREPA's transmission and distribution system to the private and professional management of Luma. This transfer, which occurred on June 1, 2021, is part of PREPA's transformation and seeks to facilitate the repair and modernization of the electrical grid by Luma and ensure stability in the provision of electric power to the people of Puerto Rico.

The complaint alleges the O&M agreement is null and void as it (i) violates Puerto Rico law, (ii) constitutes a leonine obligation, (iii) prejudices UTIER's members, (iv) interferes with UTIER's members' collective bargaining agreement, and (v) violates the contracts clause of the U.S. Constitution. As such, plaintiffs allege it should not be given priority in PREPA's bankruptcy. They also argue that legislation underlying the O&M Agreement (Act 29-2009) is unconstitutional for violation of the Supremacy Clause and Contacts Clause of the U.S. Constitution and the separation of powers doctrine under the Commonwealth Constitution. Plaintiffs seek declaratory relief, enjoinment of the O&M Agreement, payment of almost $603 million to the Sistema de Retiro de los Empleados de la Autoridad de Energía Elécrtica (SREAEE), and $15 million in damages to Plaintiffs.

On April 26, 2021, Plaintiffs filed a motion requesting a preliminary injunction to enjoin enforcement of the O&M Agreement, and prevent the transfer of operations of PREPA's systems to Luma. The Court denied that motion on May 21, 2021. Plaintiffs then filed a motion asking the Court to reconsider that decision one week later (the Motion for Reconsideration), on May 28, 2021, based on their contention that the Court applied an outdated version of Act 120-2018. The Court denied the Motion for Reconsideration on June 1, 2021 and LUMA commenced operating and maintaining PREPA's transmission and distribution system the same day.

On June 11, 2021, the Court entered an order confirming the briefing schedule jointly requested by all parties to the proceeding. Under this schedule, briefing on the complaint or a dispositive motion, if filed by defendants, will conclude on October 4, 2021.

- *Hernandez-Montañez v. Pierlusi-Urrutia, Adv. Pro. No. 21-00042-LTS (D.P.R. April 21, 2021)*

  On April 21, 2021, the Speaker of the Puerto Rico House of Representatives, acting on behalf of the Puerto Rico House of Representatives, filed a complaint against the Governor, FAFAA, the President of the Puerto Rico State Elections Commission, and the Secretary of the Puerto Rico Treasury Department (collectively, the Executive Branch Defendants) and the Oversight Board, seeking declaratory and injunctive relief prohibiting the Executive Branch Defendants and Oversight Board from distributing certain election-related funds related to Act 167 of 2020.

  Act 167 called for a special election (the Special Election) to be held on May 16, 2021 to select a six-member delegation to be sent to Washington, D.C. in order to press for Puerto Rico's admission as a state. Because Puerto Rico's certified budget for the 2020-2021 fiscal year did not allocate funds for this special election, the Governor sought authorization from the Oversight Board to reprogram

funds. The Oversight Board informed the Governor that, in the unique circumstances presented here, the reprogramming request must be submitted to both the Oversight Board and the Legislature. Subsequently, the Governor requested a budget amendment to appropriate funds for the Special Election and submitted a proposed amended budget to the Oversight Board pursuant to PROMESA section 202. The Oversight Board determined the Governor's proposed amended budget was a compliant budget, as required by PROMESA section 202(c)(1), and submitted it to the Legislature. Thereafter, the Legislature informed the Oversight Board that a bill identical to the Governor's proposed amended budget was defeated during a markup session vote and that it would not comply with the budget amendment process. As a result, the Oversight Board issued a resolution stating, among other things, that (i) the Governor and the Legislature were at an impasse concerning the appropriation of funds to cover the cost of the Special Election; (ii) PROMESA section 402 constrained the Oversight Board from adopting an interpretation of PROMESA that might restrict Puerto Rico's determination of its political status; (iii) the Oversight Board desired to allow the Commonwealth government to adopt or not to adopt the proposed amended budget the same as would occur absent PROMESA; and (iv) therefore, the original Commonwealth budget would remain in effect without revision. Thereafter, FAFAA informed the Oversight Board that the Governor authorized the disbursement of funds to fund the Special Election.

Plaintiff seeks orders declaring that PROMESA's budgetary provisions apply to all budgetary expenditures, including those relating to contested election-related funds, and that section 402 did not exempt the proposed reallocation of funds from PROMESA's budgetary provisions. Plaintiffs also seek an order enjoining the Governor and Secretary of the Treasury from allegedly misappropriating and distributing those funds.

On April 22, 2021, Plaintiff filed a motion seeking a temporary restraining order or preliminary injunction prohibiting Defendants from distributing certain election-related funds pending resolution of the complaint. On April 29, 2021, the Title III Court issued an order denying Plaintiff's motion seeking a temporary restraining order or preliminary injunction.

On June 4, 2021, the Executive Branch Defendants and the Oversight Board filed separate motions to dismiss the complaint. Under the current schedule, briefing on the motion to dismiss will be completed on July 16, 2021.

- *SREAEE v. Pierluisi-Urrutia, Adv. Pro. No. 21-00049-LTS (D.P.R. May 6, 2021)*

  On May 6, 2021, SREAEE, the Board of Trustees of the Puerto Rico Electric Authority Employees' Retirement System, José Ramón Rivera- Rivera, Ralphie Dominicci-Rivera, Erasto Zayas-López, Juan Carlos Adrover, Sammy Rodríguez, and Trustees And Fiduciaries of the Electric Power Authority Employees' Retirement System (collectively Plaintiffs) filed a complaint against the Governor, the Commonwealth, PREPA, the Oversight Board as a representative of PREPA, Ralph A. Kreil-Rivera as President and Executive Director of the Governing Board of PREPA, Efran Paredes-Maysonet as Executive Director of PREPA, Puerto Rico Public Private Partnership Authority (P3), Fermín Fontanés-Gómez as Executive Director of P3, FAFAA, Omar J. Marrero- Díaz as Executive Director of FAFAA, Luma Energy LLC, Luma Energy Servco, LLC, (together with Luma Energy LLC, "Luma") and Wayne Stensby as President and CEO of Luma. Like Adversary Proceeding No. 21-00041 (the UTIER Case), the complaint challenges the O&M Agreement. It raises nearly identical arguments as the UTIER Case and requests substantially the same forms of relief, in this case seeking almost $3 billion in damages.

  On June 11, 2021, the Court entered an order confirming the briefing schedule jointly requested by all parties to the proceeding. Under this schedule, briefing on the complaint or a dispositive motion,

if filed by defendants, will conclude on October 4, 2021. The order harmonizes briefing schedule in this case and the UTIER case, given the substantial overlap between the cases.

- *Senate of Puerto Rico v. Paredes-Maisonet, Adv. Pro. No. 21-00059-LTS (D.P.R. June 3, 2021)*

  On June 1, 2021, the Senate of Puerto Rico, represented by its President, Hon. José Luis Dalmau Santiago, filed a Complaint in the Commonwealth of Puerto Rico Court of First Instance, San Juan Superior Court. Among others, it names PREPA, the P3 Authority, and LUMA Energy, LLC and certain of each of their executives and the Governor of Puerto Rico as defendants. Plaintiff seeks a preliminary injunction enjoining LUMA from exercising authority under the O&M Agreement, ordering the return of management of the transmission and delivery system to PREPA, and a reversal of steps taken to effectuate the O&M Agreement. On June 3, 2021, Efran Paredes Maisonet, the Executive Director of PREPA, in his official capacity, and FAFAA, in its capacity as the entity authorized to act on behalf of Puerto Rico's governmental entities by the Enabling Act of the Fiscal Agency and Financial Advisory Authority, Act 2-2017, removed the action to the Title III Court. Plaintiff filed a motion to remand on June 10, 2021. The motion to remand will be fully briefed by July 1, 2021.

Pension Plans

On September 29, 2011, two ERS beneficiaries commenced a derivative suit in the Commonwealth of Puerto Rico Court of First Instance, San Juan Part (the Commonwealth Court) in the case styled *Administración de los Sistemas de Retiro de los Empleados del Gobierno y la Judicatura de Puerto Rico, et. al v. UBS Fin. Servs. Inc. of Puerto Rico, et al.*, Civ. No. KAC-2011-1067 (803) (P.R. Ct. of First Instance Sept. 29, 2011) (the UBS Action), alleging breach of fiduciary duties and breach of contract against the underwriters in the issuance and underwriting of $3 billion of ERS Bonds in 2008. On December 7, 2016, the Commonwealth Court allowed ERS to intervene and ordered the plaintiffs, which now include ERS and seven individual plaintiffs (collectively, the Plaintiffs), to file a third amended complaint against the underwriters, including UBS Financial Services Inc. of Puerto Rico (UBS), and related entities (collectively, the UBS Defendants). UBS had served as the lead underwriter of the 2008 ERS Bonds.

Among other things, Plaintiffs allege that by participating as the lead underwriter of the 2008 ERS Bonds, UBS violated its contractual, non-contractual and fiduciary obligations to ERS. The Plaintiffs seek a ruling that UBS is liable to ERS for over $800 million for underwriting the 2008 ERS Bonds.

On March 6, 2019, Plaintiffs filed the Fourth Amended Complaint against the UBS Defendants, which was accepted by the Commonwealth Court on April 15, 2019. On April 29, 2019, UBS filed its answer and an informative motion regarding its intent to file a counterclaim if ERS's Title III automatic stay were to be lifted. The proposed counterclaim attached to the informative motion alleges breach of contract and indemnification arising out of ERS's issuance of the 2008 ERS Bonds.

On June 25, 2019, the Oversight Board filed a motion to stay certain contested matters pending confirmation of a proposed plan of adjustment for the Commonwealth. On July 24, 2019, the Title III Court entered an order staying until November 30, 2019, various adversary proceedings and claims objections before it with overlapping issues, including those involving the validity of the ERS Bond issuances. Because these overlapping issues are also at stake in the UBS Action, UBS contends that the UBS Action in the Commonwealth Court should be stayed pending the Title III Court's resolution of these common legal issues.

On October 8, 2019, UBS filed a motion for relief from the automatic stay in order to assert counterclaims in the Commonwealth Court for breach of contract and indemnification against the System in the UBS Action. UBS asserts that the System represented in the 2008 System Bond Offering Statements that it was issuing the 2008 System Bonds in accordance with the authority provided under the Retirement Act, and that the 2008 System Bonds would be legally binding special obligations of the System. UBS also argues that the

System represented in the purchase contracts entered into with UBS that the System had full right, power and legal authority to issue the bonds, and it was not in violation of any law. On December 11, 2019, the Title III Court held a hearing on UBS's stay relief motion. On December 16, 2019, the Title III Court granted UBS limited relief from the stay solely to allow UBS to present its proposed counterclaims in the Commonwealth Court. On February 4, 2020, UBS submitted its counterclaims in the Commonwealth Court. On March 9, 2020, the Oversight Board filed its objections to the counterclaims. On March 30, 2020, UBS renewed its stay relief motion, arguing that the Oversight Board's objection to the counterclaims violated the December limited lift-stay order and the Commonwealth Court should now be free to hear the Oversight Board's objections. On April 22, 2020, the Title III Court denied the motion.

UBS has also filed two proofs of claim against ERS related to the UBS Action, as well as two proofs of claim related to *Casasnovas Balado v. UBS Fin. Servs., Inc.*, No. KAC-2014-0072 (905) (P.R. Ct. of First Instance Jan. 29, 2016), an action filed by a group of individual plaintiffs arising from the ERS Bond issuances.

Commitments and Other Contingencies

On November 23, 1998, a global settlement agreement (the Global Agreement) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Global Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. Estimated payments to be received under the Global Agreement through the year ending June 30, 2025, amount to approximately $884 million. After 2025, the tobacco companies will continue making contributions in perpetuity. Pursuant to Act No. 173-1999, which created the Children's Trust (a blended component unit), the Commonwealth conditionally allocated and transferred to the Children's Trust the contributions that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the Global Agreement and recognized as revenue during the year ended June 30, 2018, amounted to approximately $77.3 million. All of the revenue to be received under the Global Agreement and investment earnings on certain accounts under bond indentures is pledged as collateral for the Tobacco Settlement Asset Backed Bonds, Series 2002, 2005, and 2008. As of June 30, 2018, the approximate amount of the pledge is $1.4 billion, representing the approximate remaining principal and interest of the aforementioned bond issuances, which are committed through May 15, 2057. Accordingly, until May 15, 2057, such revenue is not available for other purposes.

The healthcare industry, under which PRMeSA operates, is subject to numerous laws and regulations, which include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be subjected to fines or penalties. While management of PRMeSA believes its policies, procedures, and practices comply with governmental regulations, no assurance can be given that the Administration will not be subject to governmental inquires or actions.

The SCPT has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement, and rehabilitation of certain projects of the Special Communities. At June 30, 2018, the SCPT's accumulated budgeted balances on these agreements amounted to approximately $1.1 billion, from which a total of approximately $1 billion had been disbursed.

As of June 30, 2018, the following blended component units maintained various unspent construction and assistance commitments as follows (in thousands):

Entity		Amount
PRIFA	$	22,809

The Commonwealth is also committed under numerous noncancelable long-term- operating lease agreements, which expire through 2030, covering land, office facilities, and equipment. Rental expenditure within the governmental funds for the year ended June 30, 2018 under such operating leases was approximately $54 million.

The future minimum lease payments for these leases were as follows (in thousands):

Year(s) ending June 30:		
2019	$	59,276
2020		43,718
2021		31,465
2022		18,285
2023		14,619
2024–2028		32,466
2029–2030		974
Total future minimum lease payments	$	200,803

Environmental Commitments and Contingencies

The Commonwealth accounts for pollution remediation obligations in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care.

Once any of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.

- The government commences or legally obligates itself to commence pollution remediation.

Discretely Presented Component Units

In the normal course of their operations, various discretely presented component units are also subject to guarantees and other actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the major discretely presented component units. With respect to commitments related to guarantees, these commitments and guarantees are summarized below:

(a) GDB

At June 30, 2018, GDB had financial guarantees for the private sector of approximately $109 million. In addition, at June 30, 2018, standby letters of credit to the public-sector- were approximately $1.3 billion. Commitments to extend credit to the public-sector- were approximately $1.4 billion, while there were no commitments to extend credit to the private sector.

On July 24, 2013, Aerostar Airport Holdings, LLC (Aerostar) and PRPA entered into a lease agreement of Luis Muñoz Marín International Airport (LMMIA), for a term of 40 years. In connection with the lease of LMMIA, GDB executed a payment guarantee in favor of Aerostar for any Termination Damages due and payable in cash by PRPA under the lease agreement. In accordance with GDB's guarantee, Aerostar has the right to terminate the lease agreement mainly under three different noncompliance scenarios on the part of PRPA. The amount of Termination Damages mainly consists, among other components, of the LMMIA Facility Leasehold Value and Leasehold Compensation as defined in the agreement. Notably, notwithstanding the GDB Title VI Qualifying Modification (the "Qualifying Modification"), which resulted in a restructuring of substantially all of GDB's debts, GDB agreed to remain the guarantor with respect to the lease agreement with Aerostar and Aerostar provided written confirmation that the contingent guarantee claims against GDB shall remain against GDB notwithstanding the transfer of assets outside of GDB pursuant to the Qualifying Modification.

On September 22, 2011, Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and PRHTA entered into a concession agreement (the Concession Agreement) for the administration of the toll roads PR-22 and PR-5, for which PRHTA received in exchange a lump sum payment of $1.1 billion and a commitment to make immediate improvements to the toll roads amounting to $56 million and to comply with world class operating standards, which may require investing more than $600 million over the life of the concession. In connection with the closing of the Concession Agreement, GDB executed a payment guarantee in favor of Metropistas pursuant to which GDB acts as guarantor of any Termination Damages, as defined in the Concession Agreement, due and payable in cash by PRHTA under the Concession Agreement. The amount of Termination Damages consists, among other components, of the fair market value of Metropistas' interest in the toll roads. At the same time, in connection with the payment guarantee, GDB and PRHTA also entered into a Reimbursement Agreement whereby PRHTA agreed to reimburse GDB for any amounts paid under the guarantee. Notably, notwithstanding the Qualifying Modification, GDB also agreed to remain the guarantor with respect to the Concession Agreement with Metropistas and Metropistas provided written confirmation that the contingent guarantee claims against GDB shall remain against GDB notwithstanding the transfer of assets outside of GDB pursuant to the Qualifying Modifcation.

The PRHFA acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2018, the principal balance of the mortgage loans serviced for others is approximately as follows (in thousands):

Entiy		Amount
Puerto Rico Community Development Fund I	$	29,302
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments		19
Total	$	29,321

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

PRHTA is a defendant or codefendant in various lawsuits for alleged damages in cases principally related to construction projects. The contactors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless PRHTA from lawsuits brought on account of damages relating to the construction of the projects. As of June 30, 2018, PRHTA, based on legal advice, has recorded a liability of approximately $105 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of approximately $10.7 million of legal cases related to construction projects and approximately $94.1 million related to expropriation and related costs. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise for such claims will not be significant to PRHTA's financial position or results of operations. As of May 21, 2017, PRHTA is a debtor in a Title III case under PROMESA and, as a result, these cases are stayed during the pendency of PRHTA's Title III case, and these matters may be resolved as unsecured claims against PRHTA through the Title III process or otherwise.

(c) PREPA

In 2009, a large fire at a tank farm owned by CAPECO caused major damage to surrounding areas. PREPA stored some of its fuel at this facility. In the aftermath of the fire, numerous claims were filed against CAPECO. Some of the plaintiffs included PREPA as a defendant in these suits, alleging that PREPA failed in its duty (as the owner of fuel stored at the site) to properly monitor CAPECO's operations in the tank farm. On August 12, 2010, CAPECO filed` for bankruptcy. As a result, all proceedings against CAPECO were stayed. Subsequently, CAPECO's bankruptcy proceeding ended, though PREPA began its Title III proceeding. Claims against PREPA are stayed by virtue of its Title III filing.

Consumer Billing Litigation

- *Ismael Marrero, et al. v. PREPA, et al.*

  This is a class action lawsuit against PREPA, William A. Clark, Edwin Rodríguez, and César Torres, as well as several laboratories, and oil supply companies. The plaintiffs claim that the defendants

entered into a RICO conspiracy whereby PREPA paid noncompliant fuel oil at compliant fuel oil price, in exchange for kickbacks from the individual defendants. Plaintiffs further alleged that they were overcharged under monthly electricity invoices as a result of the alleged RICO conspiracy.

The District Court bifurcated the case and, subsequently, certified the class. Defendants appealed the decision, and it is still pending in the First Circuit Court of Appeals.

PREPA was litigating the case vigorously, defending the merits phase of the case. Plaintiffs are not claiming at this time a specific amount of damages. In the unlikely event that plaintiffs were to prevail on the merits, the amount of damages to be awarded would depend on expert testimony. At present, the case is stayed as a result of PREPA's bankruptcy proceedings.

- *Pedro Santiago v. AEE, et al.*

  The case of *Pedro Santiago v. AEE, et al.*, Civil No. KPE20160618, is a consumer class action against PREPA under 32 L.P.R.A. § 3341, also claiming unjust enrichment, damages of up to $600 million, antitrust violations, and requesting permanent injunction. A proposed class of plaintiffs, all of whom are residential energy consumers, are challenging the fuel adjustment charge and the purchase of energy charge on various grounds, including breach of contract claims. PREPA answered the complaint, which was thereafter amended. The case is currently stayed under PROMESA. If the stay is lifted, PREPA will vigorously defend the case and maintains that there is no cause of action against it.

Other Litigation

- *PREPA v. Vitol Inc.*

  In 2009, the Authority filed suit in the San Juan Court of First Instance against Vitol, Inc. and Vitol S.A. (collectively, "Vitol") seeking declaratory judgment as to the nullity of two fuel supply agreements due to the Vitols' failure to disclose (a) certain corruption criminal charges to which Vitol S.A. pled guilty and (b) various other investigations. Vitol removed this suit to the U.S. District Court for the District of Puerto Rico ("District Court") and presented a counterclaim alleging that the Authority owed Vitol, Inc. approximately $45 million, consisting of $28 million in fuel that was delivered to, and used by, the Authority and approximately $17 million, for reimbursement of excise taxes, plus interests, costs, and attorney's fees. The Authority requested remand of the case back to the Court of First Instance. On November 28, 2012, the Authority filed a second complaint against Vitol in the Court of First Instance seeking essentially the same remedies sought in the first action but as to four other contracts, after discovery revealed the date in which Vitol learned of the investigations in the corruption cases. Vitol also removed this action to the District Court. The Authority requested remand back to the Court of First Instance. The two cases were consolidated by the District Court. The Authority claims approximately $3.5 billion in the aggregate. Vitol, Inc. has resolved the claim for the $17 million in excise taxes and has stated that it will amend its counterclaim to dismiss that claim. Discovery in the case was closed. The case was remanded to the Court of First Instance and that forum set November 15, 2019 as the date for the Authority and Vitol to file simultaneous motions for summary judgment. On November 14, 2019, Vitol removed the case again to the District Court in the Title III proceedings, due to the Special Claims Committee in the Title III Proceedings having filed an amended complaint in an adversary proceeding alleging claims against Vitol under the contracts in question in the Court of First Instance proceedings. The Authority moved for remand to the Court of First Instance once again, but the District Court denied the Authority's motion for remand on March 13, 2020. The case is currently before the District Court as an adversary proceeding in the Title III proceedings.

- *Tradewinds Energy Barceloneta LLC and Tradewinds Energy Vega Baja Arbitration*

  PREPA and Tradewinds Energy LLC entered into two Power Purchase and Operating Agreements (Tradewinds PPOAs) to develop aeolic (wind) energy facilities, which were assigned to Tradewinds Energy Barceloneta and Tradewinds Energy Vega Baja (collectively, Tradewinds). On January 18, 2016, Tradewinds filed a demand for arbitration under the two Tradewinds PPOAs claiming $30 million in damages. The parties have already selected the arbitrator but have yet to execute the arbitration submission agreement so that PREPA may proceed to answer the claim for arbitration. PREPA will deny any and all liability to Tradewinds and denies having breached any obligations under the Tradewinds PPOAs. The case has been stayed as a result of the filing of PREPA's Title III petition.

- *ReSun (Barceloneta) LLC Litigation and Arbitration*

  ReSun (Barceloneta) LLC (ReSun) and PREPA entered into a Power Purchase and Operating Agreement (ReSun PPA). ReSun claims that PREPA breached its obligations under the ReSun PPA and demanded arbitration. PREPA asserted that it did not have to submit to arbitration yet and, on December 30, 2015, ReSun filed a complaint before the State Court to compel PREPA to submit to arbitration.

  PREPA filed a motion for summary judgment to dismiss the complaint to compel and, on April 20, 2016, the State Court granted PREPA's motion and dismissed the complaint to compel arbitration. On June 23, 2016, ReSun appealed the judgment of dismissal. PREPA filed its appellee brief. The Court of Appeals affirmed the summary judgement of dismissal. ReSun filed a petition for certiorari before the PR Supreme Court, which was stayed as a result of the filing of PREPA's Title III petition. Management believes that the case has no merit, and no accrual has been made.

- *PBJL Energy Corporation Litigation v. PREPA*

  On December 20, 2011, PREPA and PBJL Energy Corporation (PBJL) entered into a Master Renewable Power Purchase and Operating Agreement (PBJL MPPA) pursuant to which PBJL, in its discretion, could propose to PREPA solar photovoltaic energy projects pursuant to which, if PREPA's system could interconnect the proposed projects, and PREPA accepted a proposed site and interconnection point, PREPA and PBJL could enter into a Power Purchase and Operating Agreement (PBJL PPA). On May 5, 2015, PBJL filed a complaint against PREPA and various employees in their official and personal capacity, claiming that PREPA had an obligation to award PBJL PPAs to PBJL and that PREPA breached its obligations under the PBJL MPPA by refusing to award PBJL PPAs to PBJL under the PBJL MPPA. On June 2, 2015, PBJL filed an amended complaint. On July 30, 2015, PREPA's defendant employees filed a motion to dismiss the complaint against them in their personal capacities, which was granted by the court. On August 10, 2015, PREPA answered the amended complaint. PBJL claims damages in the amount of $211 million. PREPA has denied any liability to PBJL and has asserted that PREPA did not have the obligation to award a PBJL PPA to PBJL under the PBJL MPPA because the same is not a contract, and that, to the extent that the PBJL MPPA is a contract, the same is null and void for lack of consideration and due to PBJL's failure to provide PREPA the sworn statement required by Act 458 of 2000, as amended, among other defenses raised by PREPA in its answer to the complaint. The case was in the stage of discovery proceedings, however, on August 30, 2017 the Puerto Rico Court of First Instance stayed this case due to PREPA's Title III filing under PROMESA.

- *CMA Builders*

  This is a cash collection action related to a bid bond furnished with the proposal forfeited in favor of PREPA. It was furnished after CMA was awarded the bid for supplying fuel oil but later failed to enter into a Contract with PREPA. A motion to reconsider was filed before the Puerto Rico Court of Appeals. This was denied by said Appellate Court on May 19, 2017.

- *Bodily Injuries Claims*

  PREPA is a defendant on several legal claims arising from different separate individuals, claiming physical bodily injuries suffered by coming into contact with wires and similar accidents and events. Aggregate claims amount to approximately $150 million. PREPA has accrued approximately $6 million as a contingent liability to settle these legal claims but intends to continue to defend the cases vigorously. However, on July 2, 2017, PREPA filed for a petition for relief under Title III of PROMESA. PREPA timely filed the notice of stay before the Puerto Rico Courts of First Instance and Court of Appeals and Supreme Court, as well as in the Federal District Court, where these cases were pending and as a result these claims were stayed.

- *Tec General Contractors v. PREPA*

  Judgment was entered against PREPA and CSA jointly for approximately $1.2 million. PREPA was also found liable for administrative expenses and retainer fee for a total of approximately $174 thousands. The case was appealed by PREPA and CSA. On July 19, 2017 PREPA filed Notice of Stay, having filed for bankruptcy under PROMESA on July 2, 2017. The case was stayed. Plaintiffs moved for reconsideration for stay as to CSA to be lifted. Both the Authority and CSA opposed the petition for reconsideration and the same was denied. Thereafter, the parties prepared a Stipulation to modify the stay so as to continue the case against CSA exclusively. On January 26, 2021, the Puerto Rico Court of Appeals issued a judgment, notified on January 29, 2021 where it partially reversed the trial court's judgment. In particular, it reversed the trial court's determination that plaintiff TEC was to be reimbursed all additional costs caused by the implicit change in construction material and affirmed payment to TEC of all amounts withheld or retained. TEC filed a Motion for Reconsideration on February 8, 2021, thereby tolling the 30 days term to file an appeal before the Puerto Rico Supreme Court. However, the Court of Appeals denied Motion for Reconsideration and TEC has filed an appeal before the Supreme Court.

(d) PRASA

PRASA is a defendant in various lawsuits arising in the normal course of its business, including employment, contract, construction, and miscellaneous environmental claims. In the opinion of PRASA and its General Counsel, the ultimate disposition of such existing proceedings is either covered by insurance or will not have a material adverse effect on the financial position or operations of PRASA. However, management, based on discussion and opinions from legal counsels, has accrued a liability to cover litigation claims and contingencies that are approximately $72.4 million as of June 30, 2018.

(e) UPR

The UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact, beyond any amount accrued at June 30, 2018, will not be material to UPR's basic financial statements.

Medical malpractice claims have been asserted against the UPR hospital and are currently at various stages of litigation. It is the opinion of the UPR hospital's legal counsel and management that recorded accruals are adequate to provide for potential losses resulting from pending or threatened litigation, as well as claims from unknown incidents that may be asserted arising from services provided to patients. Under Act No. 98-1994, maximum claims loss against the UPR hospital is limited to $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Based on the review of current facts and circumstances, the UPR hospital's management has recorded a provision for claims losses of approximately $5.9 million as of June 30, 2018, to cover claims and lawsuits that may be assessed against the UPR hospital.

Environmental Commitments and Contingencies

The following discretely presented component units' operations are the ones carrying and involved in specific activities that are subject to state and federal environmental regulations:

(a) PREPA

The facilities and operations of PREPA are subject to regulation under numerous Federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPAV), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. PREPA monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis. In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of noncompliance. PREPA and the EPA negotiated and signed a consent decree (the Consent Decree), to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. The Consent Decree requires that PREPA improve and implement compliance programs and operations to ensure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree in which PREPA reduced the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur, Aguirre, Palo Seco and San Juan Power Plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree.

PREPA believes it is in substantial compliance with the Consent Decree programs. On July 22, 2014, representatives from PREPA, EPA and United States Department of Justice (DOJ) met to discuss the termination of some of the Programs. As a result, the EPA and the DOJ requested PREPA to submit information regarding PREPA's compliance with the Programs for their review and evaluation. On September 25, 2014, PREPA's representatives met again with EPA and DOJ representatives and submitted the information requested, along with a letter where PREPA formally requested the EPA to review and approve the termination of those programs/provisions of the Consent Decree and its Modification of 2004 presented, as well as begin the process toward jointly filing in the Court a stipulation for Partial Termination of such programs. To accomplish this goal, PREPA suggested to appoint a task force composed of EPA and PREPA representatives to schedule and meet to address the details which EPA Agreed to. As of May 2018, task force meetings between PREPA and EPA have been held, and a draft of the document is being reviewed by EPA and DOJ. Once the document is final it must go through a public process for its final approval.

In 2002, PREPA received a Special Notice Concerning Remedial Investigation/Feasibility Study for Soil at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and six other entities as "potentially responsible parties," as defined in the CERCLA.

On April 25, 2013, the Consent Decree civil action (No. 12-1988 (ADC)) was filed in the U.S. Court for the District of Puerto Rico. An Environmental Escrow Agreement ("EEA") was entered into by and among the GDB, as the escrow agent, the Puerto Rico Land Authority ("PRLA"), the Puerto Rico Housing Department ("PRHD"), and PREPA and the EPA. The EEA was created to serve as financial assurance for the performance of the obligation under the Consent Decree. On June 24, 2013, PREPA deposited $400 thousand into GDB escrow account as provided in the Consent Decree. Accounts and payments in GDB are retained due to the restructuring process. The escrow account is now deposited in a commercial bank. If the escrow account balance is reduced below $250 thousand, PREPA, PRLA, and PRHD must establish and maintain a performance guarantee for the benefit of EPA equal to the difference of the escrow account balance and $250 thousand. Public agencies may elect to satisfy this performance guarantee requirement either individually, by providing separate performance guarantees which total the amount required to be maintained as set forth above, or collectively.

PREPA, on behalf of PRLA and PRHD, has requested disbursements charged against this account and payments have been processed. All payments required to be charged against this account are to cover projects required by the Consent Decree. If payments are not fulfilled, services can be suspended by the contractors resulting in the application of fines for noncompliance as agreed by the parties.

PREPA shall pay EPA all future response costs not inconsistent with the National Oil and Hazardous Substances Pollution Contingency Plan. PREPA has not been informed about these costs and is unable to determine an estimated amount, therefore there is no amount recorded in the financial statements.

This Consent Decree can be terminated upon motion by any party, provided that all public defendants have satisfied their obligations of payments of certain "Response Cost and Stipulated Penalties." Termination of the Consent Decree shall not affect certain "Covenants Not to Sue" including all reservations pertaining to those covenants and shall not affect any continuing obligation of PREPA, PRLA and the PRDH (all referred in the Consent Decree as the Settling Defendants).

Currently, the appointment of a Supervisory Contractor is in progress. The inspection and reporting work required in the Agreement is being carried out by a project coordinator appointed by PREPA, in coordination with the representatives appointed by the PRLA and the PRDH. In September 2020, the EPA started a re-evaluation of the Preliminary Operation and Maintenance Plan (the Plan) implemented, as required by the AOC. As part of this review, the EPA contractor, inspected a number of properties that were not remedied because the lead concentration detected in the field was below 450 ppm. The information collected will be evaluated by the EPA and changes to the Plan or new remediation actions could be ordered by the EPA. PREPA may be required to pay additional costs incurred by the EPA.

PREPA continues to develop and implement a comprehensive program to improve environmental compliance media. This program has been and continues to be updated to conform to new regulatory requirements.

(b) PRASA

On December 15, 2006, an agreement (Civil Case No. KPE 2006 0858) was signed between PRASA and the PRDOH to address Safe Drinking Water Act (SDWA) compliance. The agreement was preliminarily approved by the supervising court on March 15, 2007, amended, and finally approved by the court on June 20, 2008. PRASA agreed to implement a work plan to remediate SDWA violations and a procedure to address future violations that may arise, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the SDWA. This Act requires the compliance with parameters of water quality and treatment techniques in PRASA's water systems. As part of the agreement, PRASA paid a civil penalty of $1 million during fiscal

year ended June 30, 2007 for alleged non-compliances with the SDWA. The Agreement requires that PRASA self-assess and pay stipulated penalties for failing to comply with remedial measures deadlines.

During the calendar year ended December 2016, PRASA accrued approximately $0.56 million for penalties for noncompliance with the remedial measures of the Agreement, corresponding to the Progress Reports 31 to 35. On July 7, 2017, $0.56 million were deposited in an escrow account to be used for a second SEP that involves the chemical monitoring of 130 Non-Authority systems. PRASA is in compliance with the second SEP.

As part of the Agreement, PRASA paid stipulated penalties during fiscal years 2018 and 2017 of $0.21 million and $0.34 million, respectively. Stipulated penalties were paid by PRASA for failing to comply with remedial measures deadlines and parameters exceedances. PRASA deposited $0.13 million for fiscal year 2018 and $0.24 million for fiscal year 2017 in an escrow amount for parameters exceedances. The escrow account is to be used for compliance projects with the approval of the DOH.

The long-term remedial measures are divided in three terms: the Term 1 measures that were to be completed by December 31, 2011, the Term 2 measures that were to be completed by December 31, 2016, and the Term 3 measures are to be completed by December 31, 2021. All long-term remedial measures under Term 1 have been completed. The Term 2 measures have a total of 18 projects of which 14 have been completed.

DOH jointly requested the overseeing court to convert these remaining measures to the Term 3 category, which motion was granted by the court. The Term 3 measures have a total of 13 projects, seven of which have been completed. With respect to the remaining six remedial measures, PRASA and the DOH filed an additional joint motion requesting time extensions for four of these and the elimination of the remaining two, which motion was also granted by the court.

The time frame for the completion of the remaining Term 3 long-term measures remains December 31, 2021, but PRASA has asked to start negotiations with the DOH to amend the 2006 Drinking Water Settlement Agreement to include: (i) an update of PRASA facilities, (ii) the elimination of certain projects and/or requirements included in the 2006 Drinking Water Settlement Agreement because such projects and/or requirements have already been completed and certified as such; (iii) the acceptance and the implementation of the prioritization system and the Base List as was accepted under the 2015 EPA Consent Decree; and (iv) the inclusion of scheduled mandatory projects under the base list in the 2015 EPA Consent Decree. However, these negotiations were not completed as of the date of these financial statements.

Before Hurricanes Irma and Maria in September 2017, PRASA had been in substantial compliance with the capital improvement project deadlines of the 2006 Drinking Water Settlement Agreement. After these Hurricanes, PRASA submitted a notification to DOH invoking the force majeure provisions of the 2006 Drinking Water Act Settlement Agreement and indicating the possibility of some delays in projects and program due dates. As of the date of issuance of the financial statements, as mentioned above, PRASA has substantially complied with the capital improvement project deadlines under the 2006 Drinking Water Settlement Agreement. PRASA anticipates, however, that it may have difficulties meeting future deadlines unless the DOH approves the prioritization system under that Settlement Agreement.

Construction Commitments

As of June 30, 2018, the following discretely presented component units maintained various unspent construction agreements as follows (in thousands):

	Amount
Major:	
PRHTA	$ 401,000
UPR	67,800
SIFC	5,000
Sub-total	473,800
Nonmajor	35,119
	$ 508,919

Service Concession Arrangements (SCA)

(c) PRHTA

On September 22, 2011, PRHTA entered into a toll road concession agreement (the Toll Road Service Concession Agreement) with Autopistas Metropolitanas Puerto Rico, LLC (the Concessionaire), in which PRHTA granted to the Concessionaire the right to finance, operate and maintain PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years. During the 40-year term, the Concessionaire will have the right to charge and collect tolls imposed on the Toll Roads. PRHTA received an upfront concession fee payment of approximately $1.1 billion, from which approximately $873 million was used to redeem or defease certain bonds issued and outstanding associated with the Toll Roads. PRHTA recorded a deferred inflow of resources of approximately $1.1 billion, which is being amortized and recognized as revenue over the 40-year term of the agreement. The Toll Roads (capital assets) will continue to be reported in the statement of net position as a separate item as highways and bridge under service concession agreements. As of June 30, 2018 the total aggregate amount of the Toll Roads capital assets was approximately $141.9 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011 until the expiration of the Toll Roads Service Concession Agreement because the agreement requires Metropistas to return the Toll Roads to PRHTA in their original or an enhanced condition. However, improvements by Metropistas to the Toll Roads are depreciated over the estimated useful life.

On April 19, 2016, PRHTA entered into an amendment to the Toll Road Service Concession Agreement to extend the original term for 10 additional years and to create five bi-directional tolling points on the Toll Roads. PRHTA received an upfront concession fee payment of approximately $100 million, which was used to pay approximately $18.2 million of PRHTA's current debts and approximately $79.8 million was transferred to the Commonwealth in fiscal year 2016. Also, in June 2017, PRHTA received an additional $15 million payment concurrently with the commencement of the bi-directional system described above.

In addition, PRHTA capitalized and considered as deferred inflows of resources $2.5 million during the fiscal year ended June 30, 2018, for improvements made by Metropistas to the Toll Roads.

Toll Roads and Bridge Concessions under the Service Concession Agreements, at June 30, 2018 consisted of (in thousands):

Toll roads concession	$	310,392
Toll roads concession improvements		51,173
Bridge concession		109,500
Total		471,065
Less accumulated depreciation		(269,884)
Total	$	201,181

(18) Retirement Plans

Act 106-2017, enacted on August 23, 2017, approved a substantial pension reform for all of the Commonwealth's retirement systems. The Commonwealth retirement systems included the Employees' Retirement System of the Government of the Commonwealth (the ERS), the Retirement System for the Judiciary of the Commonwealth (the JRS), and the Puerto Rico System of Annuities and Pensions for Teachers (the TRS) (collectively referred to as the Retirement Systems). This reform modified most of the Retirement System's activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers. Approximately $2 billion was allocated for these purposes in Commonwealth's budget for fiscal year 2018. For further information regarding such pension legislation, see Note 3 and Note 23.

The Retirement Systems issued the June 30, 2017 stand-alone audited basic financial statements, which are publicly available.

The Commonwealth accounts for pensions based on actuarial valuations measured as of the beginning of the year (June 30, 2017). Prior to July 1, 2017, the retirement plans of the Commonwealth were administered as trusts and followed the guidance in GASB Statement No. 68. The following information is provided based on the circumstances of the Retirement Systems and the actuarial valuation prior to the effect of Act 106-2017.

(a) ERS

Plan Description – Before July 1, 2017, the ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (the Commonwealth, 78 municipalities, and 55 public corporations) were covered by the ERS. The benefits under the aforementioned benefit structures were paid by the ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS' prior programs.

The benefits provided to members of ERS were statutorily established by Commonwealth and may be amended only by the Legislature with the Governor's approval. Act No. 3-2013, in conjunction with other

recent funding and design changes, provided for a comprehensive reform of ERS. This summary details the provisions under Act No. 3-2013, which were in effect prior to August 23, 2017.

Certain provisions are different for the three groups of members who entered ERS prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1-1990 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305-1999 (Act No. 305-1999 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (the System 2000 Program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Before July 1, 2017, the assets of the Defined Benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by the ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

The following summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the applicable laws and regulations.

(i) *Service Retirements*

(a) *Eligibility for Act No. 447-1951 Members:* Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions (the PRPOB and Commonwealth Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(b) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; (3) for public officers in high-risk positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 public officers in high-risk positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(c) *Eligibility for System 2000 Members*: System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for public officers in high-risk positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for public officers in high-risk positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(d) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a public officer in a high-risk position and attainment of age 67 otherwise.

(ii) *Service Retirement Annuity Benefits*

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was $10,000 or less, it would have been paid as a lump sum instead of as an annuity.

(a) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members:* The accrued benefit as of June 30, 2013 was determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447-1951 members, determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013 and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service were considered pre- July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the PRPOB policemen and Commonwealth Firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor

for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a Mayor.

(b) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 is determined based on the average compensation for Act No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor was determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter member that had at least 30 years of credited service as of June 30, 2013, the accrued benefit equaled 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(iii) Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions were required to retire upon attainment of age 58 and 30 years of credited service. A two-year- extension may be requested by the member from the Superintendent of the PRPOB, the Chief of the Firefighter Corps, or supervising authority as applicable.

(iv) Termination Benefits

(a) *Lump Sum Withdrawal*

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

(b) *Deferred Retirement*

Eligibility: A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution

account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

(v) Death Benefits

(a) Pre-retirement- Death Benefit

Eligibility: Any current nonretired member was eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.

(b) High Risk Death Benefit under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member should each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Postdeath Increases: Effective July 1, 1996 and subsequently every three-years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three-years.

The cost of these benefits was paid by the Commonwealth.

(c) Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who had not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. *See* Act No. 105 of 1969, as amended by Act No. 158 of 2003.

ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than $1,000. Either the Commonwealth for former government

employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. ERS pays for the rest. *See* Article 2-113 of Act No. 447 of 1951, as amended by Act No. 524 of 2004.

(d) *Postretirement Death Benefit for Members Who Retired after June 30, 2013*

Eligibility*:* Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

(e) *Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.*

(vi) *Disability Benefits*

(a) *Disability*

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(b) *High Risk Disability under Act No. 127-1958*

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended).

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127-1958, as amended). The cost of these benefits was paid by the Commonwealth.

(c) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(vii) *Special Benefits*

(a) *Minimum Benefits*

i. *Past Ad hoc Increases*: The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by ERS.

ii. Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.

iii. *Coordination Plan Minimum Benefit:* A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

(b) Cost of Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35-2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS. All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

(c) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of $200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the Supplemental Contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through

legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

(viii) *Contributions*

Prior to July 1, 2017, the plan contributions requirements were as follows:

(a) *(Article 5-105 of Law 447, as amended by Law No. 3 of 2013, amended by Law No. 106 of 2017 and amended by Law 71 of 2019):* Effective July 1, 2013 through June 30, 2017, contributions by members consisted of 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions were 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Effective July 1, 2015 for members who selected the Coordination Plan, member contribution increased to 10% of compensation. Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Treasury Department in the individual member accounts under the New Defined Contribution Plan created pursuant to Act 106-2017. Also, as of that date, System's participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to the ERS. However, in the case of members of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the Puerto Rico Police Bureau, which have less than 10 years to qualify for retirement as established by Act No. 447, the reduction in the percentage of contribution from the 8.5% level will apply voluntarily.

(b) *Employer Contributions (Article 2 116, as Amended by Act No. 116-2010 and Act No. 3-2013)*: Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, 2012, employer contributions will increase annually by 1% of compensation. For the next five fiscal years, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.53% of compensation effective July 1, 2020. Under Act 106-2017, all employers' obligations to contribute to ERS were eliminated.

Act 106-2017 eliminated the employer contributions to the ERS as of July 1, 2017. Instead, participating employers are responsible for the payment of the PayGo fee to the newly created accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

(c) *Supplemental Contributions from the Commonwealth, Certain Public Corporations, and Municipalities (Act No. 3-2013)*: Effective July 1, 2013, ERS received a supplemental contribution of $2,000 each year for each pensioner (including beneficiaries receiving survivor benefits) that was previously benefitting an Act No. 447-1951 or Act No. 1-1990 member while an active employee. This supplemental contribution was paid by the Commonwealth Fund for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

Act 106 of 2017 eliminated the special benefits contribution requirement to the ERS, instead they will be allocated to the new PayGo System through legislative appropriations, as necessary.

(d) *Additional Uniform Contribution (Act No. 32-2013, as Amended)*: The additional uniform contribution (AUC) was to be certified by the external actuary of ERS each fiscal year from fiscal year 2015 through 2033 as necessary to avoid the projected gross assets of ERS, falling below $1 billion during any subsequent fiscal year. The AUC was to be paid by the Commonwealth, public corporations with their own treasuries, and municipalities. Only a fraction of the AUC from prior years has been received by ERS. Total AUC due to the ERS from fiscal years 2015, 2016 and 2017 was approximately $776 million in the aggregate. The AUC determined for fiscal year 2018 is $685 million payable at the end of the year. As further described in Note 2, all employers' contributions, including the additional uniform contribution were eliminated effectively on July 1, 2017 by Act 106-2017.

(ix) Early Retirement Programs

The EQB implemented an early retirement program for its employees under the Law 224 Act No. 7-2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by ERS in four installments on each July 31 starting in 2009 through 2012. EQB was in default on the retirement plan payment, so they requested a new payment plan. ERS Board of Trustees approved a payment plan for the debt balance due of the retirement program, over a 24-month period starting in March 2014. As of June 30, 2018, the EQB continues to be in default with this payment plan.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the General Fund) and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447-1951 or age 65 for members under Act No. 1-1990, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act 106-2017 repealed Act No. 211, while creating an incentives, opportunities and retraining program for public workers.

(b) JRS

Plan Description – Prior to July1, 2017, the JRS was administered by the ERS and JRS Administration as a single employer defined benefit pension plan. It was a trust created by Act No. 12-1954, as amended, to provide pension and other benefits to retired judges of the Judiciary Branch of the Commonwealth.

The ERS and JRS Administration allocated 2% and 98% of its general and administrative expenses during the fiscal year ended June 30, 2018 to the JRS and ERS, respectively. The methodology used to

determine the allocation of ERS and JRS Administration's expenses was based on total employers' and participants' contributions to ERS and JRS, combined.

Prior to August 23, 2017, JRS consisted of two benefit structures pursuant to Act No. 12-1954, as amended by Act No. 162-2013. Benefit provisions vary depending on member's date of hire as follows:

- Judges hired on or before June 30, 2014 with certain distinctions for judges hired December 24, 2013 to June 30, 2014 (the defined benefit plan).
- Judges hired July 1, 2014 or later (contributory, hybrid program).

All judges of the Judiciary Branch of the Commonwealth are members of JRS. Members include all persons holding a position as Judge of the Puerto Rico Supreme Court, Judge of the Court of Appeals, Superior and Municipal Judges of the Court of First Instance in the Commonwealth.

The benefits provided to members of JRS are statutorily established by the Commonwealth and may be amended only by the Legislature with the Governor's approval.

The following summary of the JRS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with applicable law and regulations, which were not changed or amended with the enactment of Act 106-2017.

Pension Plan Provisions Applicable to Judges Hired on or before June 30, 2014 (Pre-Act- No. 162-2013 Members)

(1) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the applicable benefit detailed below.

(a) Normal Retirement

Basic Eligibility: Age 60 with 10 years of credited service.

Basic Benefit: 25% of highest salary, as defined, plus 5% of highest salary, as defined, for each year of credited service in excess of 10 years, subject to a maximum of 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014.

Eligibility for Judges who serve without a Fixed Tenure: 10 years of credited service. This enhanced eligibility is not available to judges who are appointed after June 28, 2007 to an unlimited term.

Benefit for Judges who serve without a Fixed Tenure: 25% of the salary corresponding to the office during the retirement period, plus 5% of such salary for each year of credited service in excess of 10 years, subject to a maximum of 100% of such salary. If the judge has served in a position without a fixed tenure for a total of at least 8 years, the 25% increases to 50% in the preceding formula. This enhanced benefit is not available to judges who are appointed after June 28, 2007 to an unlimited term.

Optional Eligibility: Age and credited service as shown in the table below, provided at least 8 years of credited service were earned in office as a judge.

Age	Years of credited services
Less than 60	30
62	20
61	21
60	22
59	23
58	24
57	25
56	26
55	27

Optional Benefit: 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014.

Enhanced Eligibility: Any judge who has served without a fixed tenure for at least 3 years and has at least 25 years of credited service. This enhanced benefit is not available to judges who are appointed after June 28, 2007 to an unlimited term.

Enhanced Benefit: 75% of the salary earned at the time of retirement.

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 10 years of credited service, the judge can elect a refund of accumulated contributions or a proportional part of the basic benefit based on completed years and months of credited service.

(b) Early Retirement

Basic Eligibility: 20 years of credited service before age 60.

Basic Benefit: The basic benefit payable under Normal Retirement, reduced on an actuarial equivalent basis for each month that early retirement date precedes age 60. However, no actuarial reduction is applied for judges who serve without a fixed tenure.

Optional Eligibility: 20 years of credited service, provided at least 8 years of credited service were earned in office as a judge.

Optional Benefit: 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014, reduced on an actuarial equivalent basis for each month that early retirement date precedes the age specified in the table under Optional Eligibility under Normal Retirement for the applicable years of credited service.

(2) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A member is eligible upon termination of service.

Benefit: The benefit equals a refund of accumulated contributions.

(b) *Deferred Retirement*

Eligibility: A member is eligible upon termination of service prior to age 60 and after 10 years of credited service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 60, is equal to the benefit payable upon Normal Retirement.

(3) Death Benefits

(a) *Occupational Death Benefit*

Eligibility: The beneficiaries of any active participant who dies from an employment related cause under the Workmen's Accident Compensation Act.

Spouse's Benefit: 50% of the participant's salary at date of death, payable as an annuity until death or remarriage.

Children's Benefit: $10 ($20 if full orphan) for each child payable monthly until child reaches age 18 or completion of studies, if later. The maximum family benefit is 75% of the participant's salary at date of death.

Benefit if No Spouse or Children: Refund of accumulated contributions, plus an amount equal to one year of compensation, as defined, in effect at the time of death.

(b) *Pre-retirement Death Benefit*

Eligibility: Any current non-retired member is eligible, provided they are not eligible for the Occupational Death Benefit.

Benefit:

(i) While in active service, the benefit equals a refund of accumulated contributions; plus, an amount equal to one year of compensation in effect at the time of death.

(ii) While not in active service, the benefit equals a refund of accumulated contributions.

(c) *Special Pre-retirement Death Benefit*

Eligibility: An active participant who was eligible to retire at the date of death with a surviving spouse or dependent children.

Benefit: The post-retirement death benefits described below assuming the active participant retired the day before the date of death.

(d) *Post-retirement Death Benefit*

Eligibility: Any retiree or disabled member receiving a monthly benefit.

Benefit:

(i) For those married or with dependent children at the time of death, an annual income equal to 60% of the retirement benefit at time of death, payable for life for a surviving spouse and/or disabled children, and payable until age 18 or completion of studies, if later, for non-disabled children.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than $1,000. The Commonwealth pays the difference, up to $500, between (1) the

accumulated fees, as defined, with interest less the lifetime annual income paid and (2) $1,000. JRS pays for the rest.

(4) Disability Benefits

(a) Non-occupational Disability

Eligibility: All members are eligible for non-occupational disability upon 10 years of credited service and the occurrence of disability.

Benefit: 30% of average compensation, plus 1% of average compensation for each year of credited service in excess of 10 years, payable as an annuity; subject to a maximum of 50% of average compensation.

(b) Occupational Disability

Eligibility: All members disabled while in the course and as a consequence of their work, as certified by two physicians appointed by the Plan Administrator, and provided the member is receiving compensation from the Workmen's Accident Compensation Act.

Benefit: 50% of salary at date of disability, payable as an annuity, reduced by any payments received from the State Insurance Fund Corporation under the Workmen's Accident Compensation Act.

(5) Special Benefits

(a) Cost-of-Living Adjustments (COLA) to Pension Benefits: Effective January 1, 2001, commencing January 1, 2002 and subsequently every three years thereafter, the annual benefit is increased by 3% for retirees and disabled members provided that the member had been receiving payments for at least three years.

These COLAs are paid by the Commonwealth. In addition, an ad hoc 3% COLA was granted effective January 1, 1999 and is paid by JRS.

(b) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144-2005): An annual bonus of $600 for each retiree, beneficiary, and disabled member paid in December provided the judge was hired before December 24, 2013. JRS pays $150 per retiree, beneficiary, and disabled member and the balance is paid by the Commonwealth.

(ii) Summer Bonus (Act No. 37-2001): An annual bonus of $100 for each retiree, beneficiary, and disabled member paid in July provided the judge was hired before December 24, 2013. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the Commonwealth.

(iii) *Medication Bonus (Act No. 155-2003):* An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the judge was hired before December 24, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the Commonwealth.

Judges hired on December 24, 2013 and thereafter are not eligible for these special "bonus" benefits.

Before July 1, 2017, the Commonwealth made contributions to the JRS for the special benefits granted by special laws. The funding of the special benefits was provided to the JRS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 12-1954 participants are being paid by the Commonwealth as they become due since July 1, 2017.

Pension Plan Provisions Applicable to Judges Hired on or after July 1, 2014 (Act No. 162-2013 Members)

Prior to August 23, 2017, members hired on or after July 1, 2014 were covered by a contributory, hybrid plan with defined benefit and defined contribution components as follows:

(1) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the applicable benefit detailed below.

(a) Normal Retirement

Eligibility: Age 65 with 12 years of credited service.

Basic Benefit: 1.5% of average compensation, as defined, for each year of credited service, plus the annualized value of the balance in the hybrid program contribution account at the time of retirement.

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 12 years of credited service, the judge will receive a refund of the hybrid program contribution account.

(b) Early Retirement

Basic Eligibility: Age 55 with 12 years of credited service before age 65.

Basic Benefit: 1.5% of average compensation, as defined, for each year of credited service, reduced by 1/180 for each for the first 60 months and by 1/360 for each of the next 60 months by which the early retirement date precedes age 65, plus the annualized value of the balance in the hybrid program contribution account at time of retirement.

(2) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A member is eligible upon termination of service with less than 12 years of credited service.

Benefit: The benefit equals a refund of the hybrid program contribution account.

(b) Deferred Retirement

Eligibility: A member is eligible upon termination of service prior to age 65 and after 12 years of credited service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 65, is equal to the benefit payable upon Normal Retirement. The benefit may commence as early as age 55, subject to the reductions described under early retirement.

(3) Death Benefits

(a) Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: The benefit equals a refund of the hybrid program contribution account.

(b) Post-retirement Death Benefit

Eligibility: Any retiree or disabled member.

Benefit: If a member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefits.

For all members, the excess, if any, of the hybrid program contribution account at the time of retirement over the total hybrid program annuity payments paid to the member and any beneficiary per the terms of the optional form of payment is payable to a beneficiary or the member's estate.

(4) Disability Benefits

Eligibility: All members are eligible upon 5 years of credited service and the occurrence of disability prior to age 65.

Benefit: 1.5% of average compensation, as defined, for each year of credited service plus the annuitized value of the balance in the hybrid program contribution account at the time of disability, payable as an annuity; subject to a maximum of 33% of average compensation, as defined.

(5) Special Benefits

(a) Cost-of-Living Adjustments (COLA) to Pension Benefits

Commencing on January 1, 2017 and subsequently every three years thereafter, the annual benefit is increased by 3% for retirees and disabled members provided that the member had been receiving payments for at least three years.

These COLAs are paid by the Commonwealth.

Contributions

The contribution requirement to JRS were established by law and were not actuarially determined. Prior to July 1, 2017, the plan contributions requirements were as follows:

The contribution requirement to JRS is established by law and is not actuarially determined.

(1) Member Contributions: Contributions by members are 8% of compensation if hired before December 24, 2013, 10% of compensation if hired between December 24, 2013 and June 30, 2014 and 12% of compensation if hired on or after July 1, 2014.

These members retain their benefits from before the enactment of Act 106-2017 and can elect to make additional contributions to the New Defined Contribution Plan once the contributions to the defined benefits are covered. These contributions are being deposited in the PayGo system's separate account under custody of the Department of the Treasury, as required by Act 106-2017.

(2) Employer Contributions:

Effective on July 1, 2017, the following contributions were eliminated by Act No. 106-2017 and replaced with the PayGo system, accordingly the JRS is no longer receiving these contributions:

(a) Payroll based Employer Contributions

(b) Additional Uniform Contribution (Act No. 162-2013)

(c) Special Benefits

(c) TRS

Plan Description – Prior to July 1, 2017, the TRS was administered as a single employer defined benefit pension plan. It was a trust created by Act No. 91-2004, as amended, to provide pension and other benefits to retired judges of the Judiciary Branch of the Commonwealth.

Before August 23, 2017, TRS administered two benefit structures pursuant to Act No. 160-2013 (which amended Act 91-2004), as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on a member's date of hire as follows:

- Members hired on or before July 31, 2014 with certain distinctions for members who retired August 1, 2014 or later (the Defined Benefits Plan).
- Members hired August 1, 2014 or later (the Contributory Hybrid Program).

All active teachers of the Department of Education and the employees of TRS became plan members of TRS at their date of employment. Licensed teachers working in private schools or other educational organizations had the option to become members of TRS so long as the required employer and employee contributions were satisfied.

The benefits provided to members of TRS were statutorily established by the Commonwealth and could be amended only through legislation.

The following of the TRS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with applicable law and regulations, which were not changed or amended with the enactment of Act 106-2017.

As part of the plan description information, the most important aspects of Act No. 160-2013, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court, are as follows: (i) active participants as of July 31, 2014 continued to participate in the Defined Benefit Program; (ii) starting August 1, 2014, the Defined Benefit Program was closed to future participants, who enrolled and contributed to the Contributory Hybrid Program; (iii) the retirement age for new employees hired on or after August 1, 2014 was increased to age 62; (iv) the employee contributions for new employees hired on or after August 1, 2014 was increased to 10% from August 1, 2014 to June 30, 2017, 13.12% from July 1, 2017 to June 30, 2020, and 14.02% from July 2020 and thereafter; (v) Special benefits payable to active participants that retired on or before July 31, 2014 was reduced, and (vi) special benefits postemployment were eliminated for future retirees.

Defined Benefit Pension Program

Effective July 1, 2017, TRS implemented Act 106-2017, under which the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers. As of July 1, 2017, the TRS stopped making pension payments to retirees. Since July 1, 2017, the TRS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned benefits under the Defined Benefit Program and Contributory Hybrid Program had been paid by the TRS until June 30, 2017. The following section describes the Defined Benefit Program that continues in effect after the implementation of Act 106-2017 for certain beneficiaries who have not opted into the New Defined Contribution Plan.

The members of the TRS hired on or before July 31, 2014 are eligible for the benefits described below under the Defined Benefit Program:

(1) Retirement Annuity

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by TRS. The monthly annuity for which a member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of creditable services	Retirement annuity compensation
55	30 or more	75% of average compensation
50	30 or more	75% of average compensation(1)
Under 50	30 or more	65% of average compensation
50	At least 25, but less than 30	1.8% of average compensation times years of service
47, but less than 50	At least 25, but less than 30	95% of 1.8% of average compensation times years of service
60 or more	At least 10, but less than 25	1.8% of average compensation times years of service

(1) Refer to subsection (g) under Early Retirement Program.

(2) *Deferred Retirement Annuity*

A participating employee who terminated service before age 60, after having accumulated a minimum of 10 years of creditable service, qualified for a deferred retirement annuity payable beginning at age 60. A participating employee who completed 25 or more years of creditable service and is under the age of 47 at termination qualified for a deferred retirement annuity payable beginning at age 47. The vested rights described above were provided if his or her contributions to TRS are left within TRS until the attainment of the respective retirement age.

(3) *Occupational Disability Annuity*

A participating employee, who as a direct result of the performance of his or her occupation became disabled, was eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable service, if less than 5 years, recognized by TRS, times years of creditable service, but not less than $400 per month.

(4) *Nonoccupational Disability Annuity*

A participating employee disabled for causes not related to his or her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

(5) *Death Benefits*

Pre-retirement – The beneficiaries receive the member contributions made plus 2% interest accumulated as of the date of death (after reducing debts with TRS). Additionally, for beneficiaries of members who died on or before July 31, 2014, they will receive an amount equal to the annual compensation of the member at the time of death.

Post-retirement – For members who retire on or before July 31, 2014: The surviving spouse receives 50% of the member’s pension and the other 50% is shared among the members’ children (if any) and only if such children are under 22 years of age or disabled (until disability ceases). If there is no surviving spouse or qualifying children, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death. The benefit includes the full pension for the month in which the pensioner died plus an additional fifteen-day- pay

period payable to the member's eligible beneficiaries, but in no case, may the benefit be less than $1,000 per month (prior to discounting any debts with TRS).

Post-retirement – For members who retire on or after August 1, 2014: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent option form of payment, the applicable survivor benefit will be granted. Otherwise, the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death is payable to the beneficiaries or to the member's estate.

(6) Refunds

A participating employee who ceases his or her employment with the Commonwealth on or before July 31, 2014 without the right to a retirement annuity has the right to a refund of the employee contributions paid to TRS, plus any interest earned thereon.

(7) Early Retirement Program

On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, members were eligible for early retirement upon attaining the age of 50 and 28 years of service in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who selected early retirement under these conditions receive monthly benefits equal to 75% of their average compensation, which was computed based on the highest 36 months of compensation recognized by TRS. Effective July 31, 2001, the option for early retirement was closed. On January 27, 2001, Act No. 45 was approved, that established 50 years as the minimum age requirement to obtain a pension benefit equal to 75% of average compensation with 30 years of service. In these cases, the retiree pays the participating employee contribution until attaining 55 years of age. Act No. 160-2013 imposed the same obligation on the employer.

Contributory Hybrid Program

In general, a hybrid plan, such as a cash balance plan, determines the benefit amount based on a formula using contributions and earning credits, has notional individual accounts for members, and provides lifetime annuity benefits. Each member has a defined contribution account, which is credited with member contributions and investment yield. Upon retirement, the balance in the account is paid as a lifetime annuity. The program is defined as hybrid given that it has some features that are commonly found in defined benefit (DB) plans and other features that are commonly found in defined contribution (DC) plans. Prior to the enactment of Act 106-2017, the Contributory Hybrid Program exhibited these features.

After the enactment of Act 106-2017, the Contributory Hybrid Program was terminated, and beneficiaries transitioned to the New Defined Contribution Plan established under Act 106-2017. As mandated under Act 106-2017, TRS created a trust account, separate from the general assets and accounts of the Government, in the name of each TRS participant. The account was created under the custody of the Department of the Treasury and a ledger created to separate the contributions of each participant. As of June 30, 2018, the aforementioned contributions were deposited in a separate account under the custody of TRS.

Special Benefits *(previous Act 106-2017)*

The following section represents the special benefits program that TRS administered prior to July 1, 2017.

Act No. 160-2013 provides for a reduction in the special laws for pensioners as of July 31, 2014 and the elimination of special laws for future pensioners who retire on or after August 1, 2014. Special benefits include the following:

(1) Christmas Bonus

An annual bonus of $600 for each retiree and disabled member paid each December. TRS paid $150 per retiree and disabled member and the remaining bonus was paid by the Commonwealth. After August 1, 2014, for active participants that were retired on or before July 31, 2014, the bonus was $200 and paid by the Commonwealth.

(2) Medication Bonus

An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs; evidence of coverage was not required. This benefit was paid by the Commonwealth. Act No. 160-2013 kept this benefit for active participants that were retired on or before July 31, 2014.

(3) Death Benefit

Act No. 272 of March 29, 2004, increased the death benefit from $500 to $1,000. This $500 increase was paid by the Commonwealth. As per Act No. 160-2013, this benefit only applied to pensioners as of July 31, 2014 that eventually died.

Before July 1, 2017, the Commonwealth made contributions to the TRS for the special benefits granted by special laws. The funding of the special benefits was provided to the TRS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 91-2004 participants are being paid by the Commonwealth as they become due since July 1, 2017.

Contributions

The contribution requirement to TRS is established by law and is not actuarially determined.

(1) Member Contributions

The following were the contributions requirements prior to July 1, 2017:

(a) Contributions by members hired on or before July 31, 2014 are 9% of compensation. These members retain the benefits before the Act 106-2017 and can elect to make additional contributions to the new defined contribution plan, once the contributions to the defined benefits are covered.

(b) Effective July 1, 2017, contributions by members hired on or after August 1, 2014, would consist of 8.5% of compensation and are being directly deposited by the Department of the Treasury in the fiduciary bank account of the new defined contribution plan created by Act No. 106-2017.

(2) Employer Contributions

Effective on July 1, 2017, the following contributions were eliminated by Act 106-2017, accordingly the TRS is no longer receiving these contributions:

(a) Payroll-Based- Employer Contributions

(b) Supplemental Contributions

(c) Teacher's Justice Uniform Contribution

(d) Annual Additional Contribution

(d) Membership as of July 1, 2016

	JRS	TRS
Retirees, beneficiaries and disabled members currently receiving benefits	475	43,305
Current participating employees	364	35,474
Terminated vested participants not yet receiving benefits	39	1,100
Total	878	79,879

(e) Net Pension Liability

The Commonwealth's net pension liability as of June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning of year census data as of July 1, 2016 that was updated to roll forward the total pension liability to June 30, 2017, assuming no gains or losses.

(i) Actuarial Methods and Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

	ERS	JRS	TRS
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Actuarial assumptions:			
Inflation	Not applicable	Not applicable	Not applicable
Projected salary increases per annum	3.0% per annum. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy	3.0% per annum. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy	2.5% per annum general wage inflation plus service-based merit increases. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66-2014 and the current general economy.
Cost-of-living adjustments	None assumed.	None assumed.	None assumed.

The mortality tables used in the June 30, 2017 actuarial valuations were as follows:

- Pre-Retirement Mortality: For ERS general employees not covered under Act No. 127-1958 and for TRS members, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on a generational basis. For ERS members covered under Act No. 127-1958, RP 2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females, adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.
- For ERS, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127-1958. For JRS, among deaths while in active service, 50% are assumed to be occupational and 50% are assumed to be nonoccupational.

- Post-Retirement Healthy Mortality: For ERS and TRS, rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 95% of the rates from the UP-1994 Mortality Table for Males and 95% (ERS) or 87% (TRS) of the rates from the UP-1994 Mortality Table for Females. The base rates are projected on a generational basis using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- For JRS, RP-2014 Healthy Annuitant Mortality Rates are assumed with white collar adjustments for males and females, adjusted to reflect Mortality Improvement Scale MP-2017 from the 2007 base year, and projected forward using MP-2017 on a generational basis. As generational tables, it reflects mortality improvements both before and after the measurement date.
- Post-Retirement Disabled Mortality: For ERS, rates which vary by gender are assumed for disabled retirees based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvements. The 2010 base rates equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.
- For TRS, rates which vary by gender are assumed for disabled retirees based on a study of the plan's experience from 2007 to 2012 equal to the rates in the UP-1994 Mortality Table for Males and Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. No provision was made for future mortality improvement for disabled retirees.
- For JRS, RP-2014 Disabled Annuitant Mortality Rates for males and females are assumed adjusted to reflect Mortality Improvement Scale MP-2017 from the 2007 base year and projected forward using MP-2017 on a generational basis. As a generational table, it reflects mortality improvements before and after the measurement date.

(ii) Long-term Expected Rate of Return on Investments

Pursuant to Act 106-2017, the Retirement Systems liquidated most of their investments and transferred part of the proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Accordingly, the expected rate of return on investments does not apply.

(iii) Date of Depletion and Discount Rate

The asset basis for the date of depletion projection is each of the Retirement Systems' fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources).

For ERS, GASB 67 and its implementation guide do not address the mechanics of the date of depletion projection when the retirement system is the issuer of Pension Obligation Bonds (POBs). However, ERS issued the POBs and is responsible for repaying the interest and principal on the bonds. The asset basis for the date of depletion projection is ERS net assets (the gross assets less the POB proceeds). On this basis, net assets were exhausted in fiscal year 2015 and no calculation needs to be performed, as the tax-free- municipal bond index applies in all years and is thus the single equivalent interest rate that is used as the discount rate in the determination of the Total Pension Liability. The discount rate for ERS was 3.58% as of June 30, 2017.

The fiduciary net positions of TRS and JRS are not expected to be available to make all projected future benefit payments of current active and inactive members. Due to the transition to the PayGo system under Act 106-2017, no date of depletion test was performed as of June 30, 2017. TRS and the JRS discount rate was set at 3.58% as of June 30, 2017.

(iv) *Changes in Net Pension Liability of TRS and JRS*

Changes in the Commonwealth's net pension liability of TRS and JRS as of June 30, 2018 (using a June 30, 2017 measurement date) were as follows (in thousands):

		TRS			JRS	
	Total pension liability	Plan fiduciary net position	Net pension liability	Total pension liability	Plan fiduciary net position	Net pension liability
Balance at July 1, 2016	$ 18,165,572	895,455	17,270,117	651,666	34,830	616,836
Changes for the year:						
Service cost	335,237	—	335,237	25,917	—	25,917
Interest on total pension liability	518,214	—	518,214	19,018	—	19,018
Changes in benefits terms	—	—	—	(408)	—	(408)
Differences between expected and actual experience in measuring the total pension liability	131,134	—	131,134	10,872	—	10,872
Changes in assumptions	(1,964,234)	—	(1,964,234)	(66,464)	—	(66,464)
Contributions – employer	—	270,302	(270,302)	—	11,973	(11,973)
Contributions – employees	—	95,217	(95,217)	—	3,084	(3,084)
Contributions – transfers	—	644	(644)	—	—	—
Pension plan net investment income	—	38,414	(38,414)	—	2,360	(2,360)
Benefit payments, including refunds of contributions	(768,279)	(768,279)	—	(25,405)	(25,405)	—
Pension plan net administrative expenses	—	(14,787)	14,787	—	(587)	587
Net changes	(1,747,928)	(378,489)	(1,369,439)	(36,470)	(8,575)	(27,895)
Balance at June 30, 2017	$ 16,417,644	516,966	15,900,678	615,196	26,255	588,941

The net pension liabilities for TRS and JRS of approximately $15.9 billion and $588.9 million, respectively, as of June 30, 2017 are included as part of the Governmental Activities of the Primary Government in the statement of net position.

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The June 30, 2017 actuarial valuation for TRS reflect decreases from $17.3 billion as of June 30, 2016 to $15.9 billion as of June 30, 2017. The pension expense for TRS for the measurement year ending June 30, 2017 is $934.5 million.

The June 30, 2017 actuarial valuation for JRS reflects a decrease of approximately $36.5 million in the total pension liability partially because of changes in assumptions related to the change in the

discount rate as required by GASB Statement No. 67 from 2.86% in 2016 to 3.58% in 2017. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66-2014.

(v) Sensitivity of Net Position Liability to Changes in Discount Rate

The following table presents the Commonwealth's net pension liability for TRS and JRS calculated as follows (in thousands): (i) using the discount rate of 3.58%, as well as what such rate would be if calculated using a discount rate of 1% point lower (2.58%) or 1% percentage point higher (4.58%) than the current rate:

		TRS			JRS	
	1% decrease (2.58%)	Current discount rate (3.58%)	1% increase (4.58%)	1% decrease (2.58%)	Current discount rate (3.58%)	1% increase (4.58%)
Net pension liability	$ 18,242,855	15,900,678	13,983,909	676,621	588,941	518,189

The following table presents the Commonwealth's proportionate share of the net pension liability for ERS calculated using the discount rate of 3.58%, as well as what the Commonwealth's proportionate share of the net pension liability would be if it were calculated using a discount rate of 1% point lower (2.58%) or 1% percentage point higher (4.58%) than the current rate (in thousands):

	1% decrease (2.58%)	Current discount rate (3.58%)	1% increase (4.58%)
Commonwealth's proportionate share of the net pension liability	$ (26,175,754)	(23,086,446)	(20,593,977)

(vi) Commonwealth Proportion of Net Pension Liability of ERS

The following table presents the Commonwealth's proportionate share of the net pension liability of ERS as of June 30, 2018 and the proportion percentage of the aggregate net pension liability of ERS allocated to the Commonwealth (in thousands):

	Governmental activities	Business-type activities	Total primary government
Commonwealth's proportion of the net pension liability	65.07 %	2.39 %	67.46 %
Commonwealth's proportionate share of the net pension liability	$ 22,267,168	819,278	23,086,446

The Commonwealth's proportion of ERS's net pension liability was based on the actual required contributions of each of the participating employers that reflect each employer's projected long-term contribution effort. The contributions that reflect each employer's projected long-term contribution effort included in the proportionate share calculation are: (1) Act No. 116-2010 statutory payroll-based contribution; (2) Act No. 3-2013 supplemental contribution; and (3) other special law contributions. Other contributions to ERS that do not reflect an employer's projected long-term contribution effort, such as contributions that separately finance specific liabilities of an individual

employer to ERS (i.e., local employer early retirement incentives), were excluded from the proportionate share calculation.

In addition, Act No. 32-2013 Additional Uniform Contribution (AUC), which is a contribution that reflects each employer's projected long-term contribution effort, was excluded from the proportionate share calculation because its collectability from various employers, including the Commonwealth, is uncertain. This prevents an overallocation of GASB Statement No. 68 amounts to the employers who have paid their AUC (or are expected to do so) and an underallocation of GASB Statement No. 68 amounts to the employers who have not paid their AUC (or are not expected to do so).

(vii) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The enactment of Act 106-2017 changed the structure of the pension benefits administered by ERS, JRS, and TRS. The June 30, 2017 actuarial valuation for the Retirement Systems does not considered the investment return assumption for GASB 67, based on the transition of the Retirement Systems to the PayGo system.

The projected mortality improvement scale was updated from Scale MP-2016 to Scale MP-2017.

In TRS, to reflect actual retirement activity among active members that was higher than anticipated during fiscal year 2018, the retirement rates for active members were increased by 85% for fiscal year 2018.

(f) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

Pension expense recognized by the Commonwealth for the year ended June 30, 2018 related to the Retirement Systems were as follows (in thousands):

Retirement systems		Governmental activities	Business-type activities	Total primary government
ERS	$	1,365,083	73,593	1,438,676
TRS		934,462	—	934,462
JRS		55,257	—	55,257
Total	$	2,354,802	73,593	2,428,395

Deferred outflows and deferred inflows of resources from pension activities by source reported by the Commonwealth in the statement of net position as of June 30, 2018 for each of the Retirement Systems were as follows (in thousands):

Retirement system	Source	Governmental activities: Deferred outflows of resources	Governmental activities: Deferred inflows of resources	Business-type activities: Deferred outflows of resources	Business-type activities: Deferred inflows of resources
ERS	Differences between expected and actual experience in measuring total pension liability	$ 15,043	394,078	562	14,250
	Changes in assumptions	2,910,919	2,266,265	108,373	77,145
	Net difference between projected and actual earnings on pension plan investments	—	130,069	—	4,757
	Changes in proportion and differences between actual contributions and proportionate share	66,112	579,885	102,351	—
	Benefits payments made subsequent to the measurement date	990,311	—	29,756	—
	Total ERS	3,982,385	3,370,297	241,042	96,152
TRS	Differences between expected and actual experience in measuring total pension liability	287,782	—	—	—
	Changes in assumptions	1,900,456	1,683,629	—	—
	Net difference between projected and actual earnings on pension plan investments	17,118	—	—	—
	Benefits payments made subsequent to the measurement date	782,981	—	—	—
	Total TRS	2,988,337	1,683,629	—	—
JRS	Differences between expected and actual experience in measuring total pension liability	8,154	3,156	—	—
	Changes in assumptions	44,181	49,848	—	—
	Net difference between projected and actual earnings on pension plan investments	—	1,629	—	—
	Benefits payments made subsequent to the measurement date	26,581	—	—	—
	Total JRS	78,916	54,633	—	—
Total	Differences between expected and actual experience	310,979	397,234	562	14,250
	Changes in assumptions	4,855,556	3,999,742	108,373	77,145
	Net difference between projected and actual earnings on pension plan investments	17,118	131,698	—	4,757
	Changes in proportion and differences between actual contributions and proportionate share	66,112	579,885	102,351	—
	Benefits payments made subsequent to the measurement date	1,799,873	—	29,756	—
	Total	$ 7,049,638	5,108,559	241,042	96,152

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2018 will be recognized in the pension expense as follows (in thousands):

		ERS	TRS	JRS	Total
Year ending June 30:					
2019	$	(418,312)	202,447	13,419	(202,446)
2020		(478,822)	219,328	(1,600)	(261,094)
2021		(494,607)	211,831	(13,981)	(296,757)
2022		197,317	169,814	(136)	366,995
2023		931,335	(19,822)	—	911,513
Thereafter		—	(261,871)	—	(261,871)
Total	$	(263,089)	521,727	(2,298)	256,340

Deferred outflows of resources related to pensions resulting from the Commonwealth payment of benefits subsequent to the measurement date were approximately $1 billion, $783 million and $26.6 million as of June 30, 2018 for the corresponding proportionate share of ERS, for TRS and for JRS, respectively, and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. This amount is not included in the table above.

(g) Net Pension Liability Information for Discretely Presented Component Units

(i) *Plan Description and Membership*

University of Puerto Rico Retirement System

The University of Puerto Rico Retirement System (UPR Retirement System) is a single-employer, defined benefit pension plan that covers all employees of UPR with the exception of hourly, temporary, part-time, contract and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes. The UPR Retirement System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA). The UPR Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

Puerto Rico Electric Power Authority Retirement System

The Puerto Rico Electric Power Authority Retirement System (PREPA Retirement System) is a single-employer, defined benefit pension plan that covers all permanent full-time employees of PREPA administered by Employees' Retirement System of the Puerto Rico Electric Power Authority. It is qualified and exempt from Puerto Rico and United States income taxes. The PREPA Retirement System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA). The PREPA Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the Retirement System of the Puerto Rico Electric Power Authority, PO Box 13978, San Juan, Puerto Rico 00908-3978.

(ii) *Recognition of Pension Amounts*

For those discretely presented component units that did apply GASB Statements No. 68 and No. 71, the following consists of the Net Pension Liability and Pension Expense recognized in the

accompanying audited basic financial statements under the discretely presented component units opinion unit (in thousands):

		Net pension liability	Pension expense
Major component units:			
GDB	$	145,836	7,400
PREPA		4,345,561	565,900
PRASA		1,407,286	106,389
PRHTA		494,323	32,671
UPR		2,968,233	304,742
SIFC		1,560,972	123,381
Nonmajor		1,792,752	115,401
Total component units	$	12,714,963	1,255,884

The following consists of the deferred outflows and deferred inflows of resources from pension activities by source reported at June 30, 2018 by those discretely presented component units referred to above (in thousands):

Major component unit	Source		Deferred outflows of resources	Deferred inflows of resources
GDB	Benefits payments made subsequent to the measurement date	$	10,267	—
	Changes in proportion and differences between actual contributions and proportionate share		2,037	20,343
	Differences between expected and actual experience in measuring the total pension liability		99	2,581
	Changes in assumptions		19,064	14,842
	Net difference between projected and actual earnings on pension plan investments		—	852
	Total GDB		31,467	38,618
PREPA	Benefits payments made subsequent to the measurement date		129,673	—
	Differences between expected and actual experience in measuring the total pension liability		10,647	25,662
	Changes in assumptions		741,379	227,321
	Net difference between projected and actual earnings on pension plan investments		—	21,192
	Total PREPA		881,699	274,175
PRASA	Benefits payments made subsequent to the measurement date		92,674	—
	Changes in proportion and differences between actual contributions and proportionate share		25,110	—
	Differences between expected and actual experience in measuring the total pension liability		951	24,906
	Changes in assumptions		183,970	143,228
	Net difference between projected and actual earnings on pension plan investments		—	8,220
	Total PRASA		302,705	176,354

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2018

Major component unit	Source		Deferred outflows of resources	Deferred inflows of resources
PRHTA	Changes in proportion and differences between actual contributions and proportionate share	$	—	7,200
	Differences between expected and actual experience in measuring the total pension liability		334	8,748
	Changes in assumptions		64,621	50,310
	Net difference between projected and actual earnings on pension plan investments		—	2,888
	Total PRHTA		64,955	69,146
UPR	Benefits payments made subsequent to the measurement date		73,249	—
	Differences between expected and actual experience in measuring the total pension liability		—	112,645
	Changes in assumptions		831,071	—
	Net difference between projected and actual earnings on pension plan investments		—	13,667
	Total UPR		904,320	126,312
SIFC	Benefits payments made subsequent to the measurement date		88,703	—
	Changes in proportion and differences between actual contributions and proportionate share		75,382	—
	Differences between expected and actual experience in measuring the total pension liability		1,055	27,626
	Changes in assumptions		204,061	158,869
	Net difference between projected and actual earnings on pension plan investments		—	9,118
	Total SIFC		369,201	195,613
Total	Benefits payments made subsequent to the measurement date		394,566	—
	Changes in proportion and differences between actual contributions and proportionate share		102,529	27,543
	Differences between expected and actual experience in measuring the total pension liability		13,086	202,168
	Changes in assumptions		2,044,166	594,570
	Net difference between projected and actual earnings on pension plan investments		—	55,937
	Total major component units	$	2,554,347	880,218

Nonmajor component units	Source		Deferred outflows of resources	Deferred inflows of resources
	Benefits payments made subsequent to the measurement date	$	84,712	—
	Changes in proportion and differences between actual contributions and proportionate share		68,362	30,819
	Differences between expected and actual experience		1,226	30,096
	Changes in assumptions		236,350	171,363
	Net difference between projected and actual earnings on pension plan investments		3,007	11,124
			393,657	243,402
Total	Benefits payments made subsequent to the measurement date		479,278	—
	Changes in proportion and differences between actual contributions and proportionate share		170,891	58,362
	Differences between expected and actual experience		14,312	232,264
	Changes in assumptions		2,280,516	765,933
	Net difference between projected and actual earnings on pension plan investments		3,007	67,061
		$	2,948,004	1,123,620

(19) Other Postemployment Benefits

As further described in Note 1(t), the Commonwealth provides postemployment healthcare benefits through the following defined benefit plans:

- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement Plan (ERS–OPEB)
- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Judiciary's Retirement Plan (JRS–OPEB)
- Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Teachers' Retirement Plan (TRS–OPEB)

(a) Plans Descriptions

ERS–OPEB, TRS-OPEB, and JRS-OPEB are unfunded single employer defined benefit other postemployment (OPEB) plans sponsored by the Commonwealth that are administered on a pay-as-you-go basis. Accordingly, there are no assets accumulated in a qualifying trust for these OPEB plans (collectively referred to as the "OPEB Plans") that meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions.* The OPEB Plans were created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS–OPEB covers substantially all full-time employees of (1) the Primary Government and (2) those component units of the Commonwealth not having their own postemployment benefit plans. JRS–OPEB covers all judges of the Judiciary Branch of the Commonwealth. TRS–OPEB covers all active teachers of the DOE and employees of the TRS Administration.

For ERS–OPEB and TRS–OPEB, Commonwealth employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3-2013 eliminated this healthcare benefit to ERS–OPEB members retired after June 30, 2013. Act No. 160-2013 eliminated this healthcare benefit to TRS–OPEB members retired after July 31, 2014.

For JRS-OPEB, judges of the Judiciary Branch of the Commonwealth become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the age of 60 with 10 years of service.

Funding Policy – The contribution requirement of the OPEB Plans are established by Act No. 95-1963. The OPEB benefit consists of a maximum of $100 per month per retiree or disabled member. Each of the OPEB Plans is financed by the Commonwealth and its public corporations on a pay-as-you-go basis. The funding of the OPEB benefits are provided through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made for the healthcare benefits throughout the year. There is no contribution requirement for plan members during active employment.

Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(b) Membership as of July 1, 2016

	ERS	JRS	TRS	Total
Retirees, disabled members and currently receiving benefits	103,345	414	36,881	140,640

(c) Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2017 was determined by the actuarial valuation with beginning of year census data as of July 1, 2016, which was updated to roll forward the funded status to June 30, 2017.

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

ERS-OPEB

Measurement Date	June 30, 2017
Actuarial cost method	Entry age normal
Discount rate	3.58%
Mortality Assumption	Pre-retirement Mortality: For general employees not covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for male and females adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for helthy retirees and benifeciaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Tables for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. As a generational table, it reflects mortality improvements both before and after measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

JRS-OPEB and TRS-OPEB

Measurement Date	June 30, 2017
Actuarial cost method	Entry age normal
Discount rate	3.58%
Mortality Assumption	Pre-retirement Mortality: For general employees not covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for male and females adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.
	Post-retirement Healthy Mortality: RP-2014 Healthy Annuitant Mortality Rates with white collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.
	Post-retirement Disabled Mortality: RP-2014 Disabled Annuitant Mortality Rates, for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

The discount rate for June 30, 2017 was 3.58%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index.

(d) Changes in Total OPEB Liability of OPEB Plans

Changes in the Commonwealth's total OPEB liability of ERS-OPEB, TRS-OPEB, JRS-OPEB, and Other-OPEB plans as of June 30, 2018 (using a June 30, 2017 measurement date) were as follows (in thousands):

		ERS Total OPEB liability	TRS Total OPEB liability	JRS Total OPEB liability	Other Total OPEB liability	Total OPEB liability
Balance at July 1, 2016	$	1,163,025	531,150	7,497	734,985	2,436,657
Changes for the year:						
Service cost		—	—	290	10,687	10,977
Interest on total OPEB liability		30,362	14,621	217	19,902	65,102
Efect of economic/demographics gains or losses		(11,084)	(750)	(48)	(6,217)	(18,099)
Changes in assumptions		(192,736)	(39,718)	(665)	(17,647)	(250,766)
Benefit payments		(71,806)	(36,493)	(336)	(32,557)	(141,192)
Net changes		(245,264)	(62,340)	(542)	(25,832)	(333,978)
Balance at June 30, 2017	$	917,761	468,810	6,955	709,153	2,102,679

(e) Retiree Healthcare OPEB Liability, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At June 30, 2018 the OPEB liability and expense for the year ended June 30, 2018 amounted to (in thousands):

	Governmental activities		Business-type		Discretely presented component units		Total	
	Liability	Expense	Liability	Expense	Liability	Expense	Liability	Expense
ERS-OPEB	774,113	(151,124)	17,202	(2,809)	126,446	(9,214)	917,761	(163,147)
JRS-OPEB	6,955	329	-	-	-	-	6,955	329
TRS-OPEB	468,810	(25,847)					468,810	(25,847)
Other-OPEB	-	-	-	-	709,153	27,126	709,153	27,126
	1,249,878	(176,642)	17,202	(2,809)	835,599	17,912	2,102,679	(161,539)

For the year ended June 30, 2018, the ERS-OPEB and TRS-OPEB recognized a negative OPEB expense of approximately $163.1 million and $25.8 million, respectively and the JRS-OPEB, and Other-OPEB plans recognized an expense of approximately $329 thousand, and $27.1 million respectively.

Because all participants of ERS-OPEB are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

At June 30, 2018, OPEB Plans reported deferred outflows of resources and the deferred inflows of resources related to OPEB from the following sources (in thousands):

		Governmental activities		Business-type activities		Descretely presented component units	
OPEB	Source	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
ERS	Benefits payments made subsequent to the measurement date	$ 56,988	—	1,356	—	6,105	—
	Total ERS	56,988	—	1,356	—	6,105	—
TRS	Benefits payments made subsequent to the measurement date	34,810	—	—	—	—	—
	Total TRS	34,810	—	—	—	—	—
JRS	Differences between expected and actual experience in measuring total OPEB liability	—	36	—	—	—	—
	Changes in assumptions	—	499	—	—	—	—
	Benefits payments made subsequent to the measurement date	336	—	—	—	—	—
	Total JRS	336	535	—	—	—	—
Other	Differences between expected and actual experience in measuring total OPEB liability	—	—	—	—	6,457	4,327
	Changes in assumptions	—	—	—	—	1,464	21,307
	Net difference between projected and actual earnings on OPEB plan investments	—	—	—	—	—	895
	Benefits payments made subsequent to the measurement date	—	—	—	—	30,113	—
	Total JRS	—	—	—	—	38,034	26,529
Total	Differences between expected and actual experience	—	36	—	—	6,457	4,327
	Changes in assumptions	—	499	—	—	1,464	21,307
	Net difference between projected and actual earnings on OPEB plan investments	—	—	—	—	—	895
	Benefits payments made subsequent to the measurement date	92,134	—	1,356	—	36,218	—
	Total	$ 92,134	535	1,356	—	44,139	26,529

Amounts currently reported by JRS-OPEB and Other-OPEB as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows (in thousands):

	JRS-OPEB	Other-OPEB
Year ended June 30:		
2018	$ (178)	(6,615)
2019	(178)	(6,615)
2020	(179)	(5,137)
2021	-	259
2022	-	168
Thereafter*	-	(668)
Total	$ (535)	(18,608)

Deferred outflows of resources related to OPEB resulting from the Commonwealth payment of benefits subsequent to the measurement date were approximately $56.9 million, $34.8 million, $336 thousand, and $30.1 million, as of June 30, 2018 for the ERS-OPEB, for TRS-OPEB, for JRS-OPEB, and Other-OPEB, respectively, and will be recognized as a reduction of the total other postemployment benefits liability in the year ended June 30, 2019. This amount is not included in the table above.

(f) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability as of June 30, 2018, calculated using the discount rate of 3.58%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than current rate (in thousands):

		At 1% decrease (2.58%)	At current discount rate (3.58%)	At 1% increase (4.58%)
ERS-OPEB	$	1,010,639	917,761	839,341
JRS-OPEB		7,807	6,955	6,246
TRS-OPEB		518,336	468,810	426,953

(g) Total Other Postemployment Benefits Liability for Discretely Presented Component Units

(i) Plan Description and Membership

University of Puerto Rico Retirement System

The University of Puerto Rico provides postemployment benefits other than pension for its retired employees. Substantially all of the employees may become eligible for these benefits if they are eligible to retire under the University of Puerto Rico Retirement System (30 years of service, age 58 with 10 years of service or age 55 with 25 years of service). Employees are also eligible on disability with 10 years of service. The cost of providing such benefits is recognized when paid. The UPR Retirement System issues a publicly available financial report that includes additional financial information, other required disclosures and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

Puerto Rico Electric Power Authority Other Postemployment Benefits Plan

The Puerto Rico Electric Power Authority Retired Employees Healthcare Plan is a single-employer defined benefit healthcare plan where no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* and which is administered by the Authority. Benefit provisions under the OPEB Plan are established and may be amended by the Authority's Governing Board.

Puerto Rico Aqueduct and Sewer Authority Other Postemployment Benefits Plan

The Puerto Rico Aqueduct and Sewer Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees pursuant to collective bargain agreements. The Plan is administered by PRASA. The benefit consists of a fixed maximum monthly payment (annuity) to cover medical expenses. Based on the Plan's features and functionality, and for the purpose of the actuarial valuation, it has been identified as a single-employer defined benefit healthcare plan. Participants groups covered

are employees under the Collective Labor Agreement with "Unión Independiente Auténtica" ("UIA"), employees under the Collective Labor Agreement with "Hermandad Independiente de Empleados Profesionales de la Autoridad de Acueductos y Alcantarillados" ("HIEPAAA") and employees under the Managers' Regulation, all of which are PRASA's employees. All employees with more than twenty (20) years of rendered service within PRASA are eligible for the healthcare benefit upon retirement age. Act No.3 of April 4, 2013, an amendment to Act No. 447, established a new retirement age.

State Insurance Fund Corporation Other Postemployment Benefits Plan

The State Insurance Fund Corporation provides retirement healthcare benefits under the OPEB Program to all employees who meet certain age and years of service requirements pursuant to collective bargain agreements. The benefits consist of fully-insured health and other healthcare related benefits which are funded from the SIFC's assets.

(ii) Recognition of Total Other Postemployment Liability Amounts

For those discretely presented component units that administer Other-OPEB plans, the following consists of the Total Other Postemployment Benefits Liability and Other Postemployment Benefits Expense recognized in their audited basic financial statements within the discretely presented component units (in thousands):

		Total OPEB liability	OPEB expense
Major component units:			
PREPA	$	374,590	10,300
PRASA		75,524	3,925
UPR		232,115	10,962
SIFC		26,924	1,939
Total component units	$	709,153	27,126

The following consists of the deferred outflows and deferred inflows of resources from other postemployment benefits activities by source reported at June 30, 2018 by those discretely presented component units referred to above (in thousands):

Other OPEB plans	Source		Deferred outflows of resources	Deferred inflows of resources
PREPA	Benefits payments made subsequent to the measurement date	$	17,785	—
	Differences between expected and actual experience in measuring the total OPEB liability		—	3,875
	Changes in assumptions		—	13,922
	Total PREPA		17,785	17,797
PRASA	Differences between expected and actual experience in measuring the total OPEB liability		6,457	—
	Changes in assumptions		—	7,385
	Total PRASA		6,457	7,385
UPR	Benefits payments made subsequent to the measurement date		12,328	—
	Changes in assumptions		1,464	—
	Total UPR		13,792	—

Other OPEB plans	Source		Deferred outflows of resources	Deferred inflows of resources
SIFC	Benefits payments made subsequent to the measurement date		—	—
	Differences between expected and actual experience in measuring the total OPEB liability		—	452
	Net difference between projected and actual earnings on OPEB plan investments		—	895
	Total SIFC		—	1,347
Total	Benefits payments made subsequent to the measurement date		30,113	—
	Differences between expected and actual experience in measuring the total OPEB liability		6,457	4,327
	Changes in assumptions		1,464	21,307
	Net difference between projected and actual earnings on OPEB plan investments		—	895
	Total	$	38,034	26,529

(20) Debt Service Deposit Agreements

On May 26, 2005, the Commonwealth, PFC, and GDB (together the Commonwealth Entities) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements) effective on July 1, 2005. The objective of the DSD Agreement was for the Commonwealth Entities to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2008, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under Chapter 11 of Title 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. On May 26, 2005 the Commonwealth Entities received the upfront payment of approximately $82.7 million, representing the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth Entities delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth Entities will be managing their borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purposes of speculation. The Commonwealth Entities acknowledge that, in exchange for the upfront payment received, they are foregoing their rights to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth Entities have minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also have foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth Entities will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth Entities was recognized as other revenue for budgetary purposes in 2005; however, under U.S. GAAP, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth Entities would have otherwise earned such interest earnings. The unamortized balance amounted to approximately $10.8 million and is a component of unearned revenue at June 30, 2018. During fiscal year 2018, approximately $2.3 million was amortized into other revenue in the Governmental Activities of the accompanying statement of activities. For additional information regarding potential claims with respect to the debt service deposit agreements, refer to Note 23.

(21) Derivative Instruments

Hedging Derivative Instruments

The sole hedging derivative instrument at the Primary Government as of June 30, 2018 resided at COFINA, which has entered into an interest rate exchange agreement (swap) with a counterparty in connection with the issuance of $136 million LIBOR based adjustable-rate bonds within the Sales Tax Revenue Bonds Series 2007A (the Adjustable-Rate Bonds) maturing August 1, 2057. The Adjustable-Rate Bonds expose COFINA to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of interest payments on the Adjustable-Rate Bonds. To meet this objective, management entered into a $136 million interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. This swap effectively changes the variable rate cash flow exposure on the Adjustable-Rate Bonds to fixed cash flows. Under the terms of the interest rate swap, COFINA receives variable interest rate payments equal to the interest payment on the Adjustable-Rate Bonds and makes fixed interest rate payments at 4.92% through August 1, 2057, thereby creating the equivalent of a fixed rate debt. At June 30, 2018, the credit rating of the counterparty to this swap agreement was BBB+ by Standard & Poor's.

COFINA rejected the Swap Agreement in its Title III case, and the claim for termination payment was discharged under the COFINA Plan of Adjustment during fiscal year 2020.

The fair value and notional amount of the derivative instrument (pay fixed interest rate swap) outstanding as of June 30, 2018, designated as cash flow hedge, was as follows (in thousands):

Notional amount	Fair value	Change in fair value from June 30, 2017	Effective date	Floating rate indicator	Maturity date	Receives		Pays		Counterparty credit rating
						Type	Rate	Type	Rate	Moody's
$ 136,000	65,954	6,506	7/31/07	67% of 3m LIBOR +0.93%	8/1/57	Variable	2.513%	Fixed	4.92%	Ba3

The fair value of the interest rate swap is classified as Level 2 of the fair value hierarchy and was estimated using the zero-coupon- method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rate implied by the yield curve correctly anticipates future spot

interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon- bonds due on the date of each future net settlement of the swaps.

Risks on Hedging Derivative Instruments

By using derivative financial instrument to hedge the exposure to changes in interest rates, COFINA exposes itself to interest rate risk, credit risk, and termination risk.

Credit or Counterparty Risk – Credit risk is the failure of the counterparty (or its guarantor) to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes COFINA, which creates credit risk for COFINA. When the fair value of a derivative contract is negative, COFINA owes the counterparty and, therefore, does not possess credit risk. COFINA minimizes the credit risk in derivative instruments by entering into transactions with counterparties whose credit rating is acceptable under the investment policies of COFINA. As of June 30, 2018, there was no credit risk because the fair value of the derivative instrument was negative.

Interest Rate Risk – Interest rate risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. COFINA is exposed to interest rate risk on its pay fixed, receive variable swap; as LIBOR decreases, COFINA's net payment on the swap increases. At the same time, interest payments on the hedged adjustable-rate bonds decrease. The interest rate risk associated with interest rate swap contracts is managed by establishing and monitoring parameters that limit the types and degree of interest rate risk that may be undertaken.

Termination Risk – Termination risk is the possibility that a hedging derivative instrument's unscheduled end will affect COFINA's liability strategy or will present COFINA with potentially significant unscheduled termination payments to the counterparty. COFINA or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. COFINA is at risk that the counterparty will terminate a swap at a time when COFINA owes it a termination payment. COFINA has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including a payment default by COFINA, insolvency of COFINA (or similar events), or a downgrade of COFINA's credit rating below BBB+ or Baa1. If at the time of termination, an investment derivative instrument is in a liability position, COFINA would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Investment Derivative Instruments

In connection with the COFINA swap agreement, on July 1, 2014, Moody's issued a downgrade on the LIBOR 2007A Bonds to a rating of Ba3. On September 24, 2014, rather than terminate the Swap Agreement, COFINA and the counterparty entered into a new credit annex (the 2014 Credit Support Annex) as well as an Amendment to the ISDA Master Agreement (the 2014 ISDA Amendment) to permit COFINA to collateralize its obligations under the Swap Agreement and to amend the termination events thereunder. The impact of the new agreement was for COFINA to post $12 million in collateral to the counterparty, as well as set up a restricted account in which a portion of the collateral be deposited for the benefit of counterparty. In addition, COFINA has committed to post up to $15 million annually in additional collateral by March 15 of each year until fiscal year 2018. Over time, the maximum amount COFINA would have to post is $60 million. In December 2016, COFINA posted $15 million in additional collateral due on March 31, 2017. As of June 30, 2018, the collateral amount held by the counterparty is $49.2 million.

(22) Fund Balance (Deficit)

Below is the detail included in the fund balance (deficit) classifications for the governmental funds as of June 30, 2018 (in thousands):

		General	Debt service	ERS Special revenue	COFINA Special revenue	COFINA Debt service	Nonmajor governmental	Total governmental
Nonspendable:								
Inventory	$	—	—	—	—	—	127	127
		—	—	—	—	—	127	127
Spendable:								
Restricted for:								
General government		6,927	—	1,117,552	—	—	—	1,124,479
Public housing and welfare		99,049	—	—	—	—	—	99,049
Education		—	—	—	—	—	362,218	362,218
Public safety		—	—	—	—	—	36,589	36,589
Capital projects		—	—	—	—	—	187,375	187,375
Debt service		—	—	—	—	306,938	108,580	415,518
Subtotal		105,976	—	1,117,552	—	306,938	694,762	2,225,228
Committed to:								
Public housing and welfare		—	—	—	—	—	11,997	11,997
Subtotal		—	—	—	—	—	11,997	11,997
Assigned to:								
General government		—	—	—	—	—	16,149	16,149
Public housing and welfare		6,176	—	—	—	—	—	6,176
Health		—	—	—	—	—	22,332	22,332
Debt service		—	—	—	6,177	—	—	6,177
Subtotal		6,176	—	—	6,177	—	38,481	50,834
Unassigned		1,260,757	(1,889,112)	—	—	—	(850,895)	(1,479,250)
Total fund balance (deficit)	$	1,372,909	(1,889,112)	1,117,552	6,177	306,938	(105,528)	808,936

The following table presents individual information of deficit fund balance and net position of nonmajor governmental funds (in thousands):

Nonmajor governmental		Fund balance
PBA Special Revenue Fund	$	(61,923)
PA Special Revenue Fund		(5,928)
SCPT Special Revenue Fund		(19,414)
The Children's Trust Special Revenue Fund		(887)
PBA Debt Service Fund		(391,439)
PRIFA Debt Service Fund		(350,738)
PRMSA Debt Service Fund		(20,566)
Total	$	(850,895)

Nonmajor proprietary		Net position
Bureau of Emergency Services 9-1-1	$	(23,628)
Lotteries		(51,047)
Total	$	(74,675)

(23) Subsequent Events

Subsequent events were evaluated through June 30, 2021 to determine if any such events should either be recognized or disclosed in the 2018 basic financial statements. The subsequent events disclosed below are principally those related to debt activities, including credit rating downgrade events, other revenue and/or budget related matters and fiscal events and related legislation, both local and federal, that management believes are of public interest for disclosure.

Primary Government

(a) Certain U. S. Internal Revenue Service Examinations

The United States Internal Revenue Service (the IRS) issued several letters dated from February 7, 2019 to March 28, 2019 to PBA, PREPA, COFINA and PRMFA to inform them that the IRS is conducting certain investigations. The investigations are related to certain Forms 8038-CP (Return for Credit Payments to Issuers of Qualified Bonds, as defined by IRS) and some Bond issuances.

PBA, PREPA, COFINA and PRMFA intend to respond to all correspondence from the IRS and intend to continue to cooperate with the IRS in connection with the above referenced examinations and are working with their representatives to respond to these IRS examinations in a timely manner.

In April 2019, the IRS filed an administrative expense claim against COFINA for the return of the Paid Subsidies. On June 12, 2019, with permission of the Oversight Board, FAFAA filed an objection to the IRS claim on behalf of COFINA. On October 25, 2019, the IRS filed a response to COFINA's objection. On December 24, 2019, on behalf of COFINA, FAFAA filed its reply to the IRS's response. Negotiations between COFINA and the IRS regarding settlement of the IRS claim are ongoing. A hearing before the Title III Court is scheduled for March 10, 2021.

(b) Natural Disasters

(i) Earthquakes

On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to infrastructure, an island wide power outage, water shortages and threatening the lives of its people. In order to safeguard the health and public safety of its citizens, the Governor issued executive orders EO 2020-01 and EO 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management.

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

President Trump also approved an emergency declaration allowing direct federal assistance for emergency measures to protect lives, property and public health after the series of earthquakes.

On January 11, 2020, the Governor issued executive order EO 2020-07 authorizing the appropriation of $12 million from the Emergency Fund to be distributed equally between the municipalities of Gúanica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco to be used exclusively for damages and mitigation related to the emergency.

A preliminary assessment of the damages caused by the earthquake and subsequent aftershocks (excluding the May 2, 2020 earthquake discussed below), calculated by the United States Geological Survey, estimated total economic damages at approximately $836 million.

Puerto Rico continues to experience aftershocks that are not expected to stop any time soon. According to a January 29, 2020 report published by the United States Geological Survey, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. In fact, on May 2, 2020, an earthquake with a 5.4 magnitude struck Puerto Rico's southern coast. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier in 2020. These continued earthquakes are a powerful reminder that although the global COVID-19 pandemic is currently controlling the public spotlight; the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

On January 8, 2021, Governor Pierluisi signed executive order EO-2021-011, which declared that any reconstruction project that is necessary due to damages from Hurricanes Irma and Maria or earthquakes will be considered a critical project that should be treated with agility and urgency. To that end, EO-2021-011 created a Council for Reconstruction (the Council) that will identify and recommend critical reconstruction projects, and determine their respective priority. The Council will be required to prioritize projects to rebuild houses damages by the hurricanes and earthquakes, projects to rebuild and modernize the electric and sewer system and projects to rebuild public schools.

(ii) Status of Federal Disaster Relief Funds

The Government continues to coordinate relief and funding efforts to address the natural disasters that have affected Puerto Rico in recent years, including the continued recovery following Hurricanes Irma and Maria and the earthquakes that impacted (and continue to impact) the southern and southwestern part of Puerto Rico. As of January 11, 2021, approximately $67 billion has been appropriated by the United States Congress to Puerto Rico for disaster relief and recovery efforts. Of this amount, approximately $43.2 billion has been committed by federal agencies for distribution and $18 billion has been disbursed. Of the amounts obligated and disbursed, FEMA has approved approximately $33.8 billion and disbursed approximately $14.2 billion of the total amounts detailed above.

(iii) Revolving Funds for the Reconstruction of Puerto Rico

On November 18, 2020 Joint Resolution 85 was approved by the Legislature in order to establish a revolving fund in the amount of $750 million to advance funding for permanent work projects under the Public Assistance Program of the Federal Emergency Management Agency (FEMA). This funds will allow municipalities and other state dependencies to access much needed funding to develop permanent reconstruction works. Funding may be used specifically for reconstruction projects needed as a result of recent disasters, such as, the passage of Hurricanes Irma and María, and the earthquakes.

(c) COVID-19 Pandemic

(i) Executive Orders

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorized the Secretary of the DOT and the Executive Director of the PROMB to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing

information with the municipalities. Numerous executive orders have been subsequently issued by the Governor to manage all COVID-19 related matters.

As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico's economy, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

(ii) Economic Stabilization Measures

On March 23, 2020, the Oversight Board agreed with the Commonwealth to provide support to the Puerto Rican people, frontline workers, educators and students, and small businesses. The $788 million Emergency Measure Support Package consisted of $500 million that had to be authorized as an incremental appropriation to the fiscal year 2020 General Fund budget in compliance with the budgetary process under PROMESA, $157 million of reapportionment within the current fiscal year 2020 Commonwealth General Fund budget, and $131 million of Federal funds. This Emergency Measures Support Package was in addition to the availability of $160 million from Puerto Rico's Emergency Reserve Fund the Oversight Board had already authorized. As of January 22, 2021, the Government has disbursed $477 million of the $788 million approved in the Emergency Measure Support Package.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), commonly known as "Phase Three" of coronavirus economic relief. The CARES Act provides a stimulus to individuals, businesses, and hospitals in response to the economic distress caused by the COVID-19 pandemic; creates a $349 billion loan program for small businesses, including 501(c)(3) non-profits and physician practices; allocates $500 billion for assistance to businesses, states, and municipalities; expands telehealth services in Medicare, including services unrelated to COVID-19 treatments; expands eligibility for unemployment insurance and provides people with an additional $600 per week on top of the unemployment amount determined by each state; expands the Defense Production Act, allowing for a period of two-years when the government may correct any shortfall in resources without regard to the current expenditure limit of $50 million; provides the U.S. Secretary of the Treasury with the authority to make loans or loan guarantees to states, municipalities, and eligible businesses and loosens a variety of regulations prior legislation imposed through the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Economic Stabilization Act of 2008, and others; and authorizes supplemental appropriations to help the government respond to COVID-19 pandemic emergency.

On December 27, 2020, President Trump signed into law the *Consolidated Appropriations Act of 2021* (the Appropriations Act), which provided an additional $900 billion stimulus relief for the COVID-19 pandemic in the United States, including the territories. Importantly, the Appropriations Act extended the deadline by which the CARES Act and Coronavirus Relief Fund must be spent through December 31, 2021. Moreover, the Appropriations Act provided another round of direct payments to individuals, enhanced unemployment benefits, education funding, and aid to sectors affected by the economic impact of the pandemic. Among the stimulus, the Appropriations Act provided a direct economic relief via stimulus checks of $600 for individuals making up to $75,000 per year, $1,200 for couples making up to $150,000, and an extra $600 for dependent children that are under 17 years old. The Department of Treasury estimated that approximately 2.8 million Puerto Rico residents will benefit from this program. As of January 22, 2021, the Department of Treasury has disbursed $760 million to approximately 800,000 families.

On March 11, 2021, President Biden signed into law the *American Rescue Plan Act of 2021* (the American Rescue Plan), which provided an additional $1.9 trillion stimulus relief for the COVID-19 pandemic in the United States, including the territories. The American Rescue Plan built upon the measures in the CARES Act and Appropriations Act, including by providing for, among other things, (i) $1,400 direct payments to individuals making up to $75,000 per year and $2,800 for couples making up to $150,000 (which phase out at $80,000 and $160,000 respectively), plus an additional $1,400 for each child and/or adult dependent; (ii) an extension of expanded unemployment benefits with a $300 weekly supplement through September 6, 2021; (iii) various tax benefits; (iv) grants to small businesses; (v) education and housing assistance funding; (vi) additional COVID-19 related funding for vaccines, testing, and contract tracing, among other healthcare-related funding; and (vii) transportation-related funding. Importantly, for the first time ever, the American Rescue Plan permanently expanded the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to Puerto Rico and the U.S. territories. The U.S. Joint Committee on Taxation estimated that the EITC reform likely will result in nearly $8.1 billion in federal payments to all territories over the next decade (of which Puerto Rico would receive the largest portion), and the CTC reform likely will result in more than $4.5 billion in payments to Puerto Rican families through 2026.

Discretely Presented Component Units

Further specific subsequent events for major discretely presented component units follow:

(a) ***PRHTA***

On July 2, 2018, the trustee for the bonds issued by PRHTA notified PRHTA that it failed to make payment on principal and interest amounting to approximately $128 million and $98 million, respectively, under the 1968 and 1998 Bond Resolutions. Of the total amount defaulted by PRHTA, approximately $112.2 million and $60 million of principal and interest, respectively, was paid by the monoline bond insurers under PRHTA's financial guarantee insurance policies.

From August 1, 2018 through March 1, 2019, PRHTA defaulted on the monthly interest payments corresponding to the Puerto Rico Highways and Transportation Authority Transportation Revenue Bonds (Series A) Variable. The total aggregate amount of Series A interest expense defaulted on during this period was approximately $15.9 million. No insurance payments were made by insurance companies during that period.

From August 1, 2018 through March 1, 2019, PRHTA defaulted on the monthly interest payments corresponding to the Puerto Rico Highways and Transportation Authority Transportation Revenue Bonds (Series N) Consumer Price Index Funds Bonds (CPIFB). The total aggregate amount of Series N interest expense defaulted on during this period was approximately $1.4 million. The insurance company paid the full interest debt service defaulted.

On January 2, 2019, the trustee notified PRHTA that it failed to make the semi-annual payment of interest amounting to approximately $93.8 million. Of the total approximately $57.5 million in interest was paid by the insurance company under the financial guarantee insurance policy. This semi-annual payment excludes the Series A -variable and Series N – CIPFB which are disclosed in the preceding paragraph.

On May 27, 2021, the Oversight Board approved a revised fiscal plan (the PRHTA Fiscal Plan) to provide a roadmap for transforming not only PRHTA, but also infrastructure across Puerto Rico to catalyze economic growth. PRHTA has four objectives aligned with this goal: (a) transit security and safety projects; (b) improvement of existing transportation infrastructure; (c) completing highway systems; and (d) traffic reduction. Please refer to PRHTA the Fiscal Plan published in the Oversight Board webpage.

(b) *PREPA*

(i) The Energy Bureau Orders

As further disclose in PREPA's financial statements, on May 1, 2019 PREPA began collecting the Permanent Rate of $0.9948 cents/kWh. In addition, in July 2019, PREPA started billing/collecting rider adjustments ordered on June 27, 2019. Additional revisions of riders and reconciliation processes are conducted on a periodic basis as ordered by the Energy Bureau.

(ii) Super priority Post Petition- Revolving Credit Loan Agreement

On February 22, 2018, PREPA (as borrower) and the Commonwealth (as lender) entered into a Revolving Credit Loan Agreement, in which the Commonwealth agreed to make a revolving loan to PREPA (the Revolving Credit Loan) consisting of a super priority post-petition- credit facility in an aggregate principal amount not to exceed $300 million available to PREPA until June 30, 2018, unless extended by necessary governmental action by the Commonwealth. The Revolving Credit Loan will bear 5% interest, provided that, in the event the Commonwealth funds or refinances the Revolving Credit Loan with the proceeds of a Commonwealth financing, the interest rate on such funded or refinanced Revolving Credit Loan will automatically accrue interest at the rate equal to the interest rate on the Revolving Credit Loan not funded or refinanced with any Commonwealth financing. On March 8, 2019 the Revolving Credit Loan was paid off by PREPA.

(iii) Bond Ratings Downgrade

On July 6, 2017, Moody's downgraded its rating for PREPA's bonds to Ca from Caa3, with the outlook remaining negative. This latest downgrade reflected PREPA having commenced a proceeding under Title III of PROMESA. On the same date, Fitch also downgraded its rating for PREPA's bonds from C to D. On February 9, 2018 S&P withdrew its D rating and is now not rated (NR).

(iv) Fiscal Plan

On May 27, 2021, the Oversight Board approved a revised fiscal plan for PREPA (the PREPA Fiscal Plan) to accelerate the transformation of Puerto Rico's energy system. The PREPA Fiscal Plan is designed to improve upon prior progress made (as discussed below) by focusing on improving operations, modernizing the transmission and distribution system, upgrading the generation fleet, improving workforce and public safety, transitioning operations and management of the electricity grid to private operators, and restructuring legacy debt obligations, among other things. Please refer to the PREPA Fiscal Plan published in the Oversight Board webpage.

(v) Transformation

On January 22, 2018, then Governor Rosselló announced that the Commonwealth would begin the transformation of PREPA. On October 31, 2018, the Governor announced the request for qualifications (RFQ) from interested entities in managing and operating PREPA's electric power transmission and distribution system, pursuant to a long-term public-private partnership agreement. After a robust and competitive procurement process that lasted more than 18 months, the Partnership Committee (the Partnership Committee) established by the Puerto Rico Public-Private Partnership Authority (the P3 Authority) pursuant to Section 5 of Act 120, as amended, determined to recommend to the board of directors of the P3 Authority (the P3 Authority Board) that the contract (the T&D Contract) for the management, operation, maintenance, repair, restoration, and replacement of the Puerto Rico electric power transmission and distribution system (the Project) be awarded to a consortium composed of: (i) ATCO Ltd. (ATCO), Quanta Services, Inc. (Quanta) and

Innovative Emergency Management, Inc. (IEM), which consortium has been incorporated as LUMA Energy (LUMA Energy).

On June 22, 2020, PREPA's Governing Board and the Government of Puerto Rico, pursuant to the procedures set forth in Act 29-2009 (as amended), each approved the T&D Contract. Following these approvals, the T&D Contract was then signed by the parties on June 22, 2020.

On April 20, 2021, UTIER filed an adversary proceeding against PREPA challenging the implementation of the T&D Contract with LUMA. In its complaint, UTIER asserts multiple causes of action with the ultimate goal of enjoining the Authority's transition of management, operation, maintenance, repairs, and restoration responsibilities to LUMA and LUMA's replacement of the T&D System. On April 26, 2021, UTIER filed a motion for a preliminary injunction to enjoin LUMA from taking over operations of PREPA's T&D System. PREPA and other defendants opposed UTIER's preliminary objection motion on May 5, 2021. After a hearing on the matter, on May 21, 2021, the Court issued an order denying UTIER's motion for preliminary injunction. Responses to UTIER's complaint are due July 19, 2021.

On May 6, 2021, PREPA ERS filed a complaint against the Authority with substantially similar causes of action as in the UTIER adversary proceeding. Responses to PREPA ERS's complaint are due July 19, 2021.

On June 1, 2021, pursuant to the T&D Contract, LUMA took over the management and operation of PREPA electric power transmission and distribution system.

(c) ***PRASA***

(i) *Fiscal Plan*

On June 29, 2020, The Oversight Board approved its latest own 6-year fiscal plan for PRASA (the "PRASA Fiscal Plan") pursuant to PROMESA and the requirements imposed by the Oversight Board. The PRASA Fiscal Plan includes a series of new initiatives, including, among others, rate increases, a Public Private Partnership project for improving commercial services, increases in government account collections, reductions in physical water losses, and new federal funding. Please refer to the PRASA Fiscal Plan published in the Oversight Board webpage.

(ii) *USDA and SRF Debt Modification*

On July 2019, PRASA and FAFAA consummated definitive agreements (the "Agreemets") restructuring PRASA's debt obligations under the Environmental Protection Agency's Clean Water and Drinking Water State Revolving Funds programs ("SRF) and the United States Department of Agriculture's Rural Development, Rural Utilities Service program ("RD") totaling almost $1 billion.

The Agreements were approved by The Oversight Board pursuant to Section 207 of PROMESA. The Agreements include the termination of existing Commonwealth guarantees of the Federal Debts, thus reducing overall Government contingent liabilities and the consolidation of all the restructured debt into two SRF loans and one RD loan with extended maturities and/or lower interest rates. The restructured debt was designated as Other System Indebtness in parity with other senior debt under PRASA's Master Agreement of Trust and in not guaranteed by the Commonwealth.

(iii) *Capital Improvement Program Reactivation*

In fiscal year 2016, PRASA was forced to suspend the execution of all CIP projects and important renewal work, such as replacing inefficient meters and failed/leaking pipelines was deferred.

Starting in fiscal year 2019, PRASA re-activated all regulatory-driven CIP projects and re-started its deposits into the Capital Improvement Fund. In addition, PRASA regained access to low interest deferral loans during fiscal year 2020 as a result of the restructuring of a substantial portion of the Commonwealth Guaranteed Indebtedness as Senior Indebtedness.

In 2020, PRASA faced a new dry season where 50% of the island went under moderate to severe drought conditions. A water rationing plan was implemented affecting around 140,000 clients served by the Carraizo system from July 2 to July 27, 2020. Additionally, around 23,000 clients served by the water treatment plants of Canovanas, El Yunque, Jaguar and Guzman Arriba were also under water rationing as a result of eater levels at the water intakes at the rivers serving the plants.

(iv) PRASA Restructuring Transactions

(a) *Settlement of GDB Loan*

On February 29, 2012, PRASA entered into a line of credit agreement with GDB (the Loan Agreement), which provided an available maximum amount of $150 million for the purpose of assisting with PRASA's cash flow needs. The Loan Agreement had an amortization period of fifteen (15) years, payable in nineteen (19) quarterly payments, commencing on June 30, 2014, plus a final balloon payment (of such amount as may be the balance then outstanding) on the maturity date. The Loan Agreement was subsequently transferred to the GDB Debt Recovery Authority (GDB–DRA) upon consummation of the Qualifying Modification. At the time of the transfer to the GDB-DRA, the outstanding principal amount under the Loan Agreement was $57.5 million, plus accrued and unpaid interest. On November 10, 2020, PRASA, FAFAA, GDB-DRA, and the servicer and collateral monitor for GDB-DRA reached an agreement to resolve and settle in full all PRASA's obligations under the Loan Agreement for a one-time payment in the amount of $20.5 million (the Settlement Agreement). On November 20, 2020, the Oversight Board approved the settlement and that same day PRASA made the required payment in full. Pursuant to the terms of the Settlement Agreement, the Loan Agreement was terminated and PRASA has no further obligation under it.

(b) *Refunding Transaction*

On December 17, 2020, PRASA issued its 2020 Series A and Series B Revenue Refunding Bonds (the 2020 Senior Bonds) in the amount of $1,351.3 million and $18.8 million, respectively, for the purpose of refunding a portion of the outstanding bonds of PRASA. The proceeds of the 2020 Senior Bonds were used to (i) refinance a portion of the outstanding 2008 Revenue Bonds, Series A and Series B (Senior Lien) (ii) refinance all of PRASA's outstanding Revenue Refunding Bonds, 2008 Series A and 2008 Series B, and (iii) pay costs of issuance of the 2020 Senior Bonds. The par amount of the refunded bonds equals $1.4 billion.

(v) 2020 Clean Water State Revolving Funds Loan

After the July 2019 successful debt restructuring of PRASA'a outstanding loans under the Puerto Rico State Revolving Fund Program (the "SRF Program"), with the agreement of and in collaboration with the Environmental Protection Agency, PRASA regained access to funds from the SRF Program. On August 18, 2020, PRASA entered into a loan agreement with the Puerto Rico Department of natural Resources and PRIFA for loans totaling up to $163 million to allow for funding of 28 wastewater capital improvement projects.

The executed loan agreement provides for a 30-year amortization after completion of the relevant projects, with a 1% interest rate. The loans were designated as Senior Indebtness under PRASA's Master Agreement of Trust.

(d) UPR

On August 5, 2016, the trustee of the Desarrollos Universitarios Inc. (DUI)'s AFICA Bonds notified UPR that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. At this time, the trustee did not seek to collect or recover any indebtedness from, enforce any judgment against, obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and UPR, or exercise any act that was stayed by PROMESA, the Moratorium Act, or any Executive Orders related thereto. For additional information regarding the Moratorium Act, refer to Note 3. On or around the time that the PROMESA Title IV stay expired, the trustee again notified UPR that it was in default for failure to make the outstanding lease payments. In May 2017, UPR made the outstanding lease payments and continued to do so until July 2018. On December 19, 2018, DUI notified to the trustee of its AFICA Bonds that the UPR took the position that its Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the UPR for the operation, maintenance and management of Plaza Universitaria facilities is no longer in existence. According to DUI, the UPR has not made a payment to DUI pursuant to the Operations and Management Agreement since July 2018, which now constitutes an event of default under the lease agreement, the loan agreement, and the trust agreement. On January 3, 2019, the trustee of the DUI's AFICA Bonds notified the UPR that its failure to comply with the terms of the Operations and Management Agreement may constitute a default under the lease agreement, and that a default under the lease agreement could lead to an event of default under the loan agreement, which causes an event of default under the trust agreement. On January 11, 2019, the University and the Fiscal Agency and Financial Advisory Authority (FAFAA) notified the trustee of the DUI's AFICA Bonds that they dispute several of the statements set forth in the DUI letter, including the obligation of the University to satisfy certain of the payments DUI alleges are outstanding under the Operations and Management Agreement.

On April 30, 2019, DUI filed a civil action requesting declaratory judgements regarding: (a) the expiration date of the Operations and Management Agreement and the fact that it remains in force; (b) the fact that the University has defaulted under the terms of said agreement and concurrently other ancillary agreements; (c) the amounts owed by the University under said agreement; and (d) the obligation of the University to fully fund the Working Capital account. Amounts claimed by DUI to the University for reimbursable expenditures fees, as defined in the Operations and Management Agreement, amounted to approximately $2.6 million as of June 30, 2020.

In a letter dated May 22, 2020, DUI notified the Trustee of its AFICA Bonds that the University has repeatedly failed to pay contractual sums due to DUI since July 1, 2018 under the Operations and Management Agreement. In a subsequent communication to the Trustee of the DUI's AFICA Bonds, DUI stated that it will close the Plaza Universitaria facilities and that it will no longer operate, manage, and maintain the Plaza Universitaria facilities.

In a letter dated June 22, 2020, the Trustee of the DUI's AFICA Bonds notified the University that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under paragraph 7.1(b) of the lease agreement, and that a default under the lease agreement could lead to an event of default under section 7.01(g) of the loan agreement, which causes an event of default under section 801(d) of the trust agreement.

On June 22, 2020, DUI filed a request for summary judgement restating its claims in the original complaint and updating amounts due by the University thought July 31, 2020. The University contested the motion. A hearing was held in August 2020, where both parties presented their arguments. On September 17, 2020, the Court issued an order that all arguments were under the advisement pending the Court's final determination and adjudication.

On October 28, 2020, the University formally notified to DUI the termination of the Operations and Management Agreement effective October 31, 2020, pursuant to Section 3.01 (iii) thereof. After October 2020, all operating activities as contemplated in the Operations and Management Agreement were assumed by the University.

On December 1, 2020, the Court issued an order denying the University's motion for dismissal of the complaint. On December 16, 2020, the University filed an appeal. DUI has also moved the Court for the entry of injunctive relief as it understands that the University has unduly interfered with DUI's management of Plaza Universitaria, despite of DUI's reiterated admission of insolvency. The University opposed DUI's request for injunctive relief on December 31, 2020. On February 18, 2021, the Court denied the DUI's request for injunction and ordered the continuation of DUI's claim via the Court's ordinary course.

On January 22, 2021, the University entered into a Memorandum of Understanding (MOU) with the University of Puerto Rico Parking System, Inc. (UPRPS), a component unit of the University, in which the University appointed UPRPS, as the administrative agent, responsible for the maintenance, repairs and operation of Plaza Universitaria facilities. The University will pay $15,000 monthly as a fee for acquiring, screening and renting the premises and managing the property, up to $90,000, and the University will reimburse all expenses, including but not limited to repair, security, maintenance, utilities and any other expenses, up to $300,000, for the term of the MOU. The MOU expires on June 30, 2021.

The Oversight Board has certified four fiscal plans for the University since 2017. Considering the many variables in the forecasts, the Oversight Board has chosen to annually update and certify a Fiscal Plan for accuracy and to serve as the most updated information for the purposes of certifying an annual budget. These various University's Fiscal Plans, in accordance with PROMESA, have outlined a path to achieve fiscal responsibility, maintain access to capital markets, and provide adequate funding for the University's Retirement System.

On November 29, 2018, FAFAA and GDB announced the consummation of GDB's Qualifying Modification under Title VI of PROMESA. As a result of GDB's Qualifying Modification, the credit facilities the UPR owed to the GDB (approximately $87.3 million, including accrued interest, as of November 29, 2018) were fully offset on a dollar-for-dollar basis by the amount of the UPR's deposits held at GDB (approximately $94.4 million, including accrued interest, as of November 29, 2018) and such facilities were extinguished. The remainder of UPR's recovery on account of its deposits held at GDB (approximately $7.1 million) will ultimately depend on the recovery received from the Public Entity Trust (PET) on account of the PET Assets.

(e) GDB

(i) Budgetary Events and Related Legislation

For fiscals years 2019, 2020 and 2021 the Oversight Board certifieds budgets did not include appropriations to repay any of the GDB's outstanding loans.

(ii) Bond Credit Rating Downgrade

Currently, and after a series of credit downgrades, the credit rating of the GDB is non-investment grade.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability for Single-Employer Pension Plans – TRS

(Amounts in thousands)

The Schedule of Changes in the Net Pension Liability for Single-Employer Pension Plans presents the changes in net pension liability for the System of Annuities and Pensions for Teachers (TRS) at June 30, 2018:

		2018	2017	2016	2015
Total pension liability:					
Service cost	$	335,237	294,692	273,754	354,159
Interest		518,214	648,407	637,849	690,742
Changes in benefit terms		—	—	—	(599,560)
Differences between expected and annual experience		131,134	43,202	88,544	169,851
Changes in assumptions		(1,964,234)	1,621,712	1,235,988	83,560
Benefit payments, including refunds of contributions		(768,279)	(750,172)	(736,107)	(683,698)
Net change in total pension liability		(1,747,928)	1,857,841	1,500,028	15,054
Total pension liability – beginning		18,165,572	16,307,731	14,807,703	14,792,649
Total pension liability – ending (a)		16,417,644	18,165,572	16,307,731	14,807,703
Plan fiduciary net position:					
Contributions – employers, net of provision		270,302	213,724	194,541	189,367
Contributions – participating employees		95,217	99,557	105,120	115,461
Contributions – transfers		644	1,804	2,345	4,131
Net investment income		38,414	45,060	59,921	190,023
Other income		—	1,350	1,057	1,416
Benefit payments, including refunds of member contributions		(768,279)	(751,245)	(736,300)	(683,698)
Administrative expenses		(14,787)	(25,876)	(19,382)	(19,803)
Net change in plan fiduciary net position		(378,489)	(415,626)	(392,698)	(203,103)
Plan fiduciary net position – beginning		895,455	1,311,081	1,703,779	1,906,882
Plan fiduciary net position – ending (b)		516,966	895,455	1,311,081	1,703,779
Employer's net pension liability – ending (a)-(b)	$	15,900,678	17,270,117	14,996,650	13,103,924
Plan fiduciary net position as a percentage of the total pension liability		3.15%	4.93 %	8.04 %	11.51 %
Covered-employee payroll	$	1,033,224	1,101,896	1,127,500	1,171,154
Employer's net pension liability as a percentage of covered-employee payroll		1538.94%	1567.31%	1330.08%	1118.89%

Notes:

The Commonwealth's net pension liability as of June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2016 that was updated to roll forward the total pension liability to June 30, 2017 and assuming no gains or losses.

Schedules are intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability for Single-Employer Pension Plans – JRS

(Amounts in thousands)

The Schedule of Changes in the Net Pension Liability for Single-Employer Pension Plans presents the changes in net pension liability for the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) at June 30, 2018:

		2018	2017	2016	2014
Total pension liability:					
Service cost	$	25,917	19,155	16,375	16,764
Interest		19,018	22,625	21,861	22,620
Changes in benefit terms		(408)	—	—	—
Differences between expected and annual experience		10,872	(2,826)	(6,970)	(1,658)
Changes in assumptions		(66,464)	51,960	72,805	7,601
Benefit payments, including refunds of contributions		(25,405)	(24,560)	(23,134)	(22,667)
Net change in total pension liability		(36,470)	66,354	80,937	22,660
Total pension liability – beginning		651,666	585,312	504,375	481,715
Total pension liability – ending (a)		615,196	651,666	585,312	504,375
Plan fiduciary net position:					
Contributions – employers, net of provision		11,973	15,223	12,337	11,992
Contributions – participating employees		3,084	3,190	3,676	3,804
Net investment income		2,360	1,751	899	9,713
Other income		—	—	873	59
Benefit payments, including refunds of member contributions		(25,405)	(24,560)	(23,134)	(22,667)
Administrative expenses		(587)	(946)	(546)	(2,150)
Net change in plan fiduciary net position		(8,575)	(5,342)	(5,895)	751
Plan fiduciary net position – beginning		34,830	40,172	46,067	45,316
Plan fiduciary net position – ending (b)		26,255	34,830	40,172	46,067
Employer’s net pension liability – ending (a)-(b)	$	588,941	616,836	545,140	458,308
Plan fiduciary net position as a percentage of the total pension liability		4.27%	5.36 %	6.86 %	9.17 %
Covered-employee payroll	$	31,829	32,204	31,917	31,707
Employer’s net pension liability as a percentage of covered-employee payroll		1850.33%	1915.40%	1707.99%	1445.45%

Notes:

The Commonwealth’s net pension liability as of June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2016 that was updated to roll forward the total pension liability to June 30, 2017 and assuming no gains or losses.

Schedules are intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors’ report.

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COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of the Proportionate Share of the Net Pension Liability of a

Cost-Sharing Multiple-Employer Pension Plan – ERS

(Amounts in thousands)

The following Schedule of the Proportionate Share of the Net Pension Liability presents the proportionate share of the pension amounts of the Commonwealth for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a Cost-Sharing Multiple-Employer Pension Plan, at June 30,:

	ERS			
	2018	2017	2016	2015
Commonwealth's proportion of the net pension liability	67.45 %	67.56 %	65.87 %	64.74 %
Commonwealth's proportionate share of the net pension liability	$ 23,086,446	25,467,704	21,960,015	19,512,798
Commonwealth's covered-employee payroll	2,255,661	2,259,464	2,186,540	2,258,946
Commonwealth's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1,023.23 %	1,127.16 %	1,000.32 %	864.00 %
Plans fiduciary net position as a percentage of the total pension liability	(6.57)	(3.47)	(2.05)	0.27

Notes:

The Commonwealth's net pension liability as of June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2016 that was updated to roll forward the total pension liability to June 30, 2017 and assuming no gains or losses.

Schedules are intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Employers' Contributions for All Pension Plans

(Amounts in thousands)

		2018 (measurement date June 30, 2017)	2017 (measurement date June 30, 2016)	2016 (measurement date June 30, 2015)	2015 (measurement date June 30, 2014)
ERS:					
Statutorily required contributions	$	978,670	515,234	535,664	492,972
Contributions (a)		485,345	497,019	460,659	415,933
Contribution deficiency	$	493,325	18,215	75,005	77,039
Covered-employee payroll (b)	$	2,176,069	2,186,540	2,258,946	2,307,688
Contributions as a percentage of covered-employee payroll (a)/(b)		22.30%	22.73%	20.39%	18.02 %
TRS:					
Statutorily required contributions	$	270,302	213,675	194,541	189,367
Contributions (a)		270,302	213,675	194,541	189,367
Contribution deficiency	$	—	—	—	—
Covered-employee payroll (b)	$	1,033,224	1,101,896	1,127,500	1,171,154
Contributions as a percentage of covered-employee payroll (a)/(b)		26.16%	19.40 %	17.25 %	16.17 %
JRS:					
Statutorily required contributions	$	25,313	26,823	24,437	23,592
Contributions (a)		11,973	15,223	12,337	11,992
Contribution deficiency	$	13,340	11,600	12,100	11,600
Covered-employee payroll (b)	$	31,829	32,204	31,917	31,707
Contributions as a percentage of covered-employee payroll (a)/(b)		37.62%	47.27%	38.65 %	37.82 %

Notes:

The contribution requirement to each retirement system is established by law and is not actuarially determined.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – TRS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the System of Annuities and Pensions for Teachers (TRS) at June 30, 2018:

		2018*
Total other postemployment benefits liability:		
Service cost	$	—
Interest		14,621
Effect of plan changes		—
Effect of economic/demographic gains(losses)		(750)
Effect of assumptions changes or inputs		(39,718)
Benefit payments		(36,493)
Net change in total other postemployment benefits liability		(62,340)
Total other postemployment benefit liability – beginning		531,150
Total other postemployment benefits liability – ending (a)		468,810
Covered-employee payroll		N/A
Employer's other postemployments benefits liability as a percentage of covered-employee payroll		N/A

Notes:

Schedule is intended to show information for 10 years. However, reclculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

*The amounts presented have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – JRS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the change in the liability for the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) at June 30, 2018:

		2018*
Total other postemployment benefits liability:		
Service cost	$	290
Interest		217
Effect of plan changes		—
Effect of economic/demographic gains(losses)		(48)
Effect of assumptions changes or inputs		(665)
Benefit payments		(336)
Net change in total other postemployment benefits liability		(542)
Total other postemployment benefits liability – beginning		7,497
Total other postemployment benefits liability – ending (a)		6,955
Covered-employee payroll		31,829
Employer'sother postemployment benefits liability as a percentage of covered-employee payroll		21.85%

Notes:

Schedule is intended to show information for 10 years. However, reclculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

*The amounts presented have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Changes in Total Other Postemployment Benefits Liability and Related Ratios for Single-Employer Pension Plans – ERS

(Amounts in thousands)

The Schedule of Changes in the Total Other Postemployment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) at June 30, 2018:

		2018*
Total other postemployment benefits liability:		
Service cost	$	—
Interest		30,362
Effect of plan changes		—
Effect of economic/demographic gains(losses)		(11,084)
Effect of assumptions changes or inputs		(192,736)
Benefit payments		(71,806)
Net change in total other postemployment benefits liability		(245,264)
Total other postemployment benefit liability – beginning		1,163,025
Total other postemployment benefits liability – ending (a)		917,761
Covered-employee payroll		N/A
Employer's other postemployments benefits liability as a percentage of covered-employee payroll		N/A

Notes:

Schedule is intended to show information for 10 years. However, reclculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

*The amounts presented have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information – Unaudited

Schedule of Revenue and Expenditures – Budget and Actual –

Budgetary Basis – General Fund

Year ended June 30, 2018

(In thousands)

	Original budget	Amended budget	Actual
Revenue:			
Income taxes	$ 4,040,000	4,040,000	4,344,974
Sales and use taxes	1,662,000	1,662,000	1,644,028
Excise taxes	2,909,000	2,909,000	2,833,311
Property taxes	44,000	44,000	3,990
Other taxes	101,000	101,000	22,617
Charges for services	89,000	89,000	54,449
Revenue from component units	18,000	18,000	21,217
Intergovernmental	149,000	149,000	223,536
Other	480,480	480,480	454,515
Total revenue	9,492,480	9,492,480	9,602,637
Expenditures – current:			
General government	2,864,736	3,222,514	2,994,821
Public safety	1,821,472	1,825,206	1,754,448
Health	1,438,498	1,134,727	1,019,994
Public housing and welfare	434,411	375,597	318,673
Education	2,401,151	2,245,845	2,280,886
Economic development	381,482	460,861	423,722
Intergovernmental	220,730	297,730	298,950
Total expenditures	9,562,480	9,562,480	9,091,494
Excess (deficiency) of revenue over expenditures	(70,000)	(70,000)	511,143
Other financing sources:			
Transfer in from Lotteries Fund	70,000	70,000	39,854
Total other financing sources	70,000	70,000	39,854
Excess of revenue and other financing sources over expenditures.	$ —	—	550,997

See accompanying notes to required supplementary information and independent auditors’ report.

(1) Changes of Benefit Terms and Assumptions

On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017 for all the Commonwealth's pension plans.

(2) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the PROMB and takes into consideration the advice provided by the PRPB (annual economic growth forecasts and four-year capital improvements plan), the DOT (revenue estimates, accounting records, and the comprehensive annual financial report), FAFAA (the fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law."

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget is submitted and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four -year capital improvements plan adopted by the PRPB.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two-thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2018 (including other financing sources) amounted to approximately $9.6 billion, including several special budget appropriations to the General Fund made by the Legislature throughout the year which amounted to approximately $2.1 billion.

The PROMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

PROMESA has significantly changed the approval process for the Commonwealth's general fund budget. After fiscal year 2017 the process to approve the budget is controlled by the Oversight Board. The Oversight Board submits to the Governor a notice delineating a schedule for the development, submission, approval, and certification of proposed budgets to be submitted by the Governor and the Legislature to the Oversight Board for its approval. The Oversight Board, at its discretion, is responsible for determining the number of fiscal years to be covered by the budget submission.

The Oversight Board is responsible for submitting revenue estimates for the period covered by the proposed budgets to the Governor and Legislature for use by the Governor in developing budgets to be submitted for

review and approval to the Oversight Board. The bill outlines three means by which a proposed budget could be approved.

- **Budget Submission by Governor**. If the Oversight Board determines that the proposed budget is compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to approve the proposed budget and submit it to the Legislature for approval. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to issue a "notice of violation" which would include recommendations to correct the deficiencies.
- **Oversight Board Budget**. Should the Governor fail to submit a compliant budget then the bill would permit the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory, and only to the Governor in the case of a territorial instrumentality.
- **Budget Adopted by Legislature.** The bill would direct the Legislature to adopt a proposed budget for submission to the Oversight Board. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the Oversight Board may issue a "notice of violation" which includes recommendations to correct the deficiencies.
- **Oversight Board Budget**. Should the Legislature fail to submit a compliant budget then the bill would allow the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory.
- **Certification of Budget as Compliant.** Under provisions of the bill, if the Governor and Legislature approve a territorial budget that is compliant, or if the Governor develops a budget for the Commonwealth that is compliant with the applicable fiscal plan, then the Oversight Board could issue a certificate of compliance. If the Governor and Legislature fail to develop and approve a budget that would be compliant, then the Oversight Board could develop and submit a budget to the Governor and Legislature and such budget would be deemed approved by the Governor and the Legislature. In the case of a territorial instrumentality, only the Governor could submit a proposed budget for review by the Oversight Board.
- **Budget jointly developed by the Oversight Board, the Governor, and Legislature**. The bill would allow the Oversight Board, the Governor, and the Legislature to work collaboratively to develop a consensus budget for the territorial government. In the case of a territorial instrumentality, the bill would allow the Oversight Board and the Governor to work collaboratively to develop a budget.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders and contracts) are considered expenditures when a commitment is made. For U.S. GAAP reporting purposes, encumbrances outstanding at year-end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on a U.S. GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenue is recorded when cash is received.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments must give effect to the "priority norms" established by law for the disbursement of public funds

in the following order of priority: (i) the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth's guarantee has been exercised); (ii) the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit, and full faith of the Commonwealth; (iii) current expenditures in the areas of health, protection of persons and property, education, welfare, and retirement systems; and (iv) all other purposes.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the General Fund.

For these funds, a schedule of revenue and expenditures – budget and actual budgetary basis – General Fund is included. Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

The PROMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. The PROMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for General Fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

Notwithstanding the foregoing, the enactment of PROMESA (as discussed in Note 3) created an Oversight Board with the power to review and approve budgets for the Commonwealth and its instrumentalities. Under PROMESA, a fiscal plan for each covered entity must be certified by the Oversight Board before the Commonwealth can propose any fiscal year budgets. All budgets proposed after the enactment of PROMESA must be certified by the Oversight Board as being consistent with the applicable certified fiscal plan. For additional information on the budget certification process under PROMESA, refer to Note 3.

(3) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with U.S. GAAP. Revenue is generally recognized when cash is received. Income tax revenues are reduced for the amount of income tax refunds paid during the year and claimed but unpaid at year end. Short-term- and long-term- borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123-2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP. For a reconciliation of the statement of revenue and expenditures – budget and actual –

budgetary basis – General Fund with the statement of revenue, expenditures, and changes in fund balances (deficit) for the General Fund, refer to Note 6 to Required Supplemental Information. The Special Revenue Funds do not have a legally mandated budget.

(4) Budget/U.S. GAAP Reconciliation

Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with U.S. GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2017 is presented below for the General Fund (in thousands):

Excess of revenue and other financing sources under expenditures and other financing uses – budgetary basis	$	550,997
Entity differences–excess of revenues and other financing sources over expenditures and other financing uses for:		
Nonbudgeted funds		580,391
Inclusion of agencies with independent treasuries		(7,834)
Timing differences:		
Adjustment for encumbrances		379,440
Current year expenditures against prior year encumbrances		(208,925)
Basis of accounting differences:		
Revenue accrual adjustment		(27,239)
Expenditures accrual adjustments		199,136
Excess of revenue and other financing sources over expenditures and other financing uses – U.S. GAAP basis	$	1,465,966

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

General Fund

Year ended June 30, 2018

(In thousands)

The General Fund is the primary operating fund of the Commonwealth. The General Fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures – budget and actual – General Fund (budgetary basis).

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2018

(In thousands)

	Original budget	Amended budget	Actual
Expenditures – Current:			
General government:			
Senate of Puerto Rico	$ 40,382	40,932	40,932
House of Representatives of Puerto Rico	47,539	46,479	46,479
Comptroller's Office	39,690	37,359	37,359
Governor's Office	20,343	19,409	15,524
Office of Management and Budget (1)	793,501	188,312	177,481
Planning Board	10,230	8,789	8,236
Department of State	3,813	5,477	2,999
Department of the Treasury (1)	1,627,538	2,616,234	2,405,074
Office of the Administration and Transformation of Human Resources	3,066	2,977	2,984
Commonwealth Elections Commission	30,623	33,819	30,775
Federal Affairs Administration	3,322	3,663	3,239
General Services Administration	—	—	3,581
Municipal Complaints Hearing Commission	2,420	1,384	1,265
Civil Rights Commission	1,014	982	784
Office of the Citizen's Ombudsman	3,853	3,853	3,272
Government Ethics Board	9,278	9,278	9,278
Legislative Affairs Office	10,475	10,475	10,475
Office of the Superintendent of the Capitol	15,148	15,148	15,148
Comptroller's Special Reports Joint Commission	1,310	760	707
Legislative Donation Commission	20,000	21,060	21,033
Corporation "Enlace" Caño Martín Peña	11,075	10,941	10,941
Puerto Rico Statistics Institute	2,067	2,045	2,045
Permits Management Office	7,649	7,649	6,022
Permits Inspector General Office	4,000	—	—
Financial Oversight and Management Board for Puerto Rico	60,000	60,000	64,000
Public Buildings Authority	90,200	69,811	69,840
Office of Elections Comptroller	3,225	2,913	2,726
Appellative Board of the Personnel System Administration	2,975	2,765	2,622
Total general government	2,864,736	3,222,514	2,994,821
Public safety:			
Puerto Rico General Court of Justice	322,131	292,930	291,571
Civil Defense	8,040	124,243	123,705
Commission of Investigation, Processing and Appeals Board	414	376	321
Department of Justice	112,821	100,175	91,844
Puerto Rico Police Department	756,510	731,921	685,759
Puerto Rico Firefighters Corps	66,103	57,723	55,031
Puerto Rico National Guard	11,096	10,699	9,734
Public Service Commission	4,188	3,887	3,827
Consumer Affairs Department	6,030	5,921	5,572
Natural Resources Administration	31,566	26,975	26,930
Office of the Model Forest	223	223	223
Department of Correction and Rehabilitation	397,119	366,559	358,303
Parole Board	2,263	2,240	1,876
Forensic Sciences Institute	15,939	17,953	17,953
Special Prosecutor Panel	2,743	2,683	2,692
Correctional Health	64,516	62,162	60,739
Medical Emergencies Service	19,770	18,536	18,368
Total public safety	1,821,472	1,825,206	1,754,448

(Continued)

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2018

(In thousands)

	Original budget	Amended budget	Actual
Health:			
Environmental Quality Board	$ 10,039	14,517	10,441
Department of Health	431,555	298,706	274,362
Puerto Rico Medical Services Administration	67,800	71,888	71,888
Mental Health and Drug Addiction Services Administration	110,544	86,048	75,886
Puerto Rico Solid Waste Authority	3,977	3,874	3,874
Puerto Rico Health Insurance Administration	791,583	636,694	560,543
University of Puerto Rico Comprehensive Cancer Center	23,000	23,000	23,000
	1,438,498	1,134,727	1,019,994
Public housing and welfare:			
Puerto Rico Office for Socioeconomic and Community Development	3,170	2,893	2,281
Department of Labor and Human Resources	9,362	13,542	9,692
Labor Relations Board	781	661	663
Department of Housing	13,062	13,566	11,907
Department of Recreation and Sports	37,315	32,421	28,867
Administration for the Horse Racing Sport and Industry	1,614	1,708	1,672
Women’s Affairs Commission	3,611	3,004	1,700
Public Housing Administration	405	405	—
Office of the Veteran‘s Ombudsman	2,467	2,338	2,120
Department of Family	26,395	24,877	21,447
Family and Children Administration	187,218	177,168	150,255
Minors Support Administration	10,788	12,197	8,876
Vocational Rehabilitation Administration	15,401	15,095	15,111
Social Economic Development Administration	65,120	59,128	53,092
Office of the Disabled Persons Ombudsman	1,458	1,290	1,189
Office for Elderly Affairs	2,635	2,557	3,242
Company for the Integral Development of the Península de Cantera	433	433	433
Patient Ombudsman	2,049	1,838	1,649
Administration for the Care and Development of the Childhood	51,127	10,476	4,477
	434,411	375,597	318,673
Education:			
Department of Education	1,674,924	1,521,784	1,557,318
Institute of Puerto Rican Culture	11,758	11,093	10,385
Puerto Rico School of Plastics Arts	1,956	1,956	1,956
State Office for Historic Preservation	1,162	1,087	1,302
University of Puerto Rico	678,321	678,321	678,321
Musical Arts Corporation	6,696	6,453	6,453
Fine Arts Center Corporation	3,110	3,110	3,110
Puerto Rico Public Broadcasting Corporation	8,915	8,190	8,190
Puerto Rico Conservatory of Music Corporation	5,072	4,815	4,815
Puerto Rico Council on Education	9,237	9,036	9,036
	2,401,151	2,245,845	2,280,886

(Continued)

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2018

(In thousands)

	Original budget	Amended budget	Actual
Economic development:			
Department of Transportation and Public Works	$ 54,053	113,309	112,392
Department of Natural and Environmental Resources	6,329	9,144	9,372
Department of Agriculture	25,693	25,735	29,798
Cooperative Enterprises Development Administration	2,033	1,822	1,480
Department of Economic Development and Commerce	2,781	2,624	2,624
Agricultural Enterprises Development Administration	94,074	71,398	69,283
Energy Affairs Administration	810	870	783
Puerto Rico Trade and Export Company	690	690	690
Puerto Rico Infrastructure Financing Authority	3,600	25,692	3,603
Puerto Rico Housing Finance Authority	9,900	9,337	9,337
Puerto Rico Integrated Transportation Authority	36,317	20,499	20,499
Puero Rico Diabetes Center	450	450	450
Puerto Rico Acueduct and Sewer Authority	—	55,955	55,875
Puerto Rico Fiscal Agency and Financial Advisory Authority	90,000	89,790	89,790
Puerto Rico Public Partnership Authority	52,381	16,381	16,381
Culebra Conservation and Development Authority	233	227	227
Ports of Americas Authority	248	248	248
Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	890	890	890
Puero Rico Highway and Transportation Authority	1,000	—	—
Puerto Rico Maritime Transportation Authority	—	15,800	—
Total economic development	381,482	460,861	423,722
Intergovernmental – Municipal Services Administration	220,730	297,730	298,950
Total expenditures	$ 9,562,480	9,562,480	9,091,494

(1) As a department and a fiscal agent.

See accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2018

(In thousands)

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

(1) Public Buildings Authority Special Revenue Fund

The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's Primary Government agencies.

(2) Puerto Rico Fiscal Agency and Finance Advisory Authority's Special Revenue Fund

The special revenue fund of the Puerto Rico Fiscal Agency and Finance Advisory Authority, a blended component unit, is used to account for the moneys received from the Commonwealth for the purpose of overseeing compliance with the certified budget and fiscal plan pursuant to the PROMESA Act of 2016; revise matters including, but not limited to, agreements, transactions, and regulations of the agencies and instrumentalities of the Commonwealth; enter into a creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body.

(3) Puerto Rico Infrastructure Financing Authority's Special Revenue Fund

The special revenue fund of the Puerto Rico Infrastructure Financing Authority, a blended component unit, is used to account principally for the moneys received by the Commonwealth, up to $117 million, of certain federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which are collected by the U.S. Treasury and returned to the Commonwealth. Under Act No. 44-1988, as amended, the Commonwealth conditionally allocates to this fund the first $117 million of these federal excise taxes reimbursed, which are subsequently transferred to the Puerto Rico Infrastructure Financing Authority's Debt Service Fund to provide for the debt service of its special tax revenue bonds.

(4) Ponce Authority's Special Revenue Fund

The special revenue fund of Ponce Authority, a blended component unit, is used to account for its remaining legal and certain other administrative requirements resulting after the transfer of all rights and duties to Ponce Ports Authority. The main purpose of the Ponce Authority was the planning, development and construction of a large-scale container terminal in the city of Ponce, Puerto Rico.

(5) Special Communities Perpetual Trust's Special Revenue Fund

The special revenue fund of the Special Communities Perpetual Trust, a blended component unit, is used to account for the moneys received from the Governmental Development Bank, through a line of credit financing and cash contributions, upon inception of the Special Communities Perpetual Trust. The financial resources received by this fund are used to carry out development projects that address the infrastructure and housing needs of certain under privileged communities.

(6) Puerto Rico System of Annuities and Pension for Teachers

The special revenue fund of the Puerto Rico System of Annuities and Pension for Teachers, a blended component unit, is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund.

(7) Retirement System of the Judiciary of the Commonwealth of Puerto Rico

The special revenue fund of the Retirement System of the Judiciary of the Commonwealth of Puerto Rico, a blended component unit, is used to account for the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund.

(8) The Children’s Trust Special Revenue Fund

The special revenue fund of the Children’s Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

(9) University of Puerto Rico Comprehensive Cancer Center’s Special Revenue Fund

The special revenue fund of the University of Puerto Rico Comprehensive Cancer Center, a blended component unit, is used to account for the moneys received from the Commonwealth and certain other grants from both the private sector and the Federal government, to execute public policy related to the prevention, orientation, investigation and treatment of cancer in Puerto Rico.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

(1) Public Buildings Authority Debt Service Fund

A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Primary Government agencies. Its debt service fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

(2) Puerto Rico Infrastructure Financing Authority’s Debt Service Fund

The debt service fund of the Puerto Rico Infrastructure Financing Authority accounts for the financial resources that are restricted to expenditure for the payment of interest and principal on its special tax revenue bonds. These resources are received from operating transfers from the Puerto Rico Infrastructure Financing Authority Special Revenue Fund.

(3) Puerto Rico Maritime Shipping Authority Debt Service Fund

This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted for the payment of the long-term- liability that resulted from the sale of its marine operations. This fund is mainly subsidized by appropriations and operating transfers from the General Fund.

COMMONWEALTH OF PUERTO RICO

Nonmajor Governmental Funds

Year ended June 30, 2018

(In thousands)

(4) The Children's Trust Debt Service Fund

The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term- obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, the Puerto Rico Infrastructure Financing Authority's Capital Project Fund, proprietary fund types, pension trust funds, and discretely presented component units.

(1) Commonwealth of Puerto Rico Capital Project Fund

These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

(2) Public Buildings Authority's Capital Projects Fund

The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

(3) Puerto Rico Infrastructure Financing Authority's Capital Projects Fund

The Puerto Rico Infrastructure Financing Authority's capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned for the acquisition or construction of capital assets and capital improvements, not financed by proprietary fund types, pension trust funds, and discretely presented component units.

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2018

(In thousands)

	Special Revenue								
	Public Buildings Authority	Puerto Rico Fiscal Agency and Financial Advisory Authority	Puerto Rico Infrastructure Financing Authority	Ponce Authority	Puerto Rico Systems of Annuities and Pensions for Teachers	Retirement System of the Judiciary of the Commonwealth of Puerto Rico	Special Communities Perpetual Trust	The Children's Trust	University of Puerto Rico Comprehensive Cancer Center
Assets:									
Cash and cash equivalents in commercial banks	$ 39,022	36,930	7,868	253	113,579	483	—	11,996	24,781
Cash and cash equivalents in governmental banks	—	—	—	—	—	—	—	68	—
Investments	—	—	—	—	2,089	—	—	—	—
Receivables – net:									
Intergovernmental	—	—	—	—	—	—	—	—	1,079
Accounts	—	—	846	—	—	—	—	—	1,350
Loans	—	—	—	—	253,440	435	—	—	—
Accrued interest	—	—	—	—	28	18	—	1	—
Other	20,231	33	42	—	8,206	62	—	—	35
Due from:									
Other funds	—	—	—	20	—	—	—	—	—
Component units	—	1,293	—	—	—	—	—	—	—
Other governmental entities	—	—	—	—	—	—	915	—	—
Other assets	1,329	—	—	—	—	—	—	—	127
Restricted assets:									
Cash and cash equivalents in commercial banks	—	—	—	—	—	35,668	367	—	2,766
Cash and cash equivalents in governmental banks	—	—	—	—	—	—	—	—	208
Cash equivalents in PRGITF	—	—	—	—	—	—	—	—	—
Investments	—	—	—	—	—	—	—	—	—
Due from other funds	—	—	161,342	—	—	—	—	—	—
Due from other governmental entities	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	4	—	—
Real estate held for sale or future development	—	—	—	—	—	—	—	—	—
Total assets	$ 60,582	38,256	170,098	273	377,342	36,666	1,286	12,065	30,346
Liabilities, deferred outflow of resources, and fund balances (deficit):									
Accounts payable and accrued liabilities	$ 31,932	21,770	2,293	451	15,124	—	20,553	955	3,698
Due to:									
Other funds	—	—	—	4,022	—	—	—	—	—
Component units	—	—	4,556	—	—	—	—	—	3,569
Other governmental entities	4,588	337	—	28	—	77	147	—	—
Interest payable	15,263	—	10,244	—	—	—	—	—	—
Unearned revenue	951	—	—	—	—	—	—	—	—
Notes payable to GDB	64,719	—	44,557	1,700	—	—	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—	—	—	—
General obligation and revenue bonds	—	—	—	—	—	—	—	—	—
Compensated absences	—	—	—	—	—	—	—	—	620
Other liabilities	5,052	—	—	—	—	—	—	—	—
Total liabilities	122,505	22,107	61,650	6,201	15,124	77	20,700	955	7,887
Deferred inflow of resources:									
Global tobacco settlement agreement	—	—	—	—	—	—	—	—	—
Total deferred inflow of resources	—	—	—	—	—	—	—	—	—
Fund balances:									
Nonspendable	—	—	—	—	—	—	—	—	127
Restricted for:									
Education	—	—	—	—	362,218	—	—	—	—
Public Safety	—	—	—	—	—	36,589	—	—	—
Debt service	—	—	—	—	—	—	—	—	—
Capital projects	—	—	108,448	—	—	—	—	—	—
Committed to:									
Public housing and welfare	—	—	—	—	—	—	—	11,997	—
Capital projects	—	—	—	—	—	—	—	—	—
Assigned to:									
Public housing and welfare	—	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—	—
General Government	—	16,149	—	—	—	—	—	—	—
Health	—	—	—	—	—	—	—	—	22,332
Unassigned (deficit)	(61,923)	—	—	(5,928)	—	—	(19,414)	(887)	—
Total fund balances (deficit)	(61,923)	16,149	108,448	(5,928)	362,218	36,589	(19,414)	11,110	22,459
Total liabilities, deferred inflow of resources, and fund balances (deficit)	$ 60,582	38,256	170,098	273	377,342	36,666	1,286	12,065	30,346

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2018

(In thousands)

	Debt Service				Capital Projects				
	The Children's Trust	**Public Buildings Authority**	**Puerto Rico Infrastructure Financing Authority**	**Puerto Rico Maritime Shipping Authority**	**Commonwealth of Puerto Rico**	**Public Buildings Authority**	**Puerto Rico Infrastructure Financing Authority**	**Eliminations**	**Total Nonmajor Governmental Funds**
Assets:									
Cash and cash equivalents in commercial banks	$ —	—	—	—	—	—	—	—	234,912
Cash and cash equivalents in governmental banks	—	—	—	—	—	—	—	—	68
Investments	—	—	—	—	—	—	—	—	2,089
Receivables – net:									
Intergovernmental	—	—	—	—	—	—	382	—	1,461
Accounts	—	—	—	—	710	—	—	—	2,906
Loans	—	—	—	—	—	—	—	—	253,875
Accrued interest	—	—	—	—	—	—	—	—	47
Other	36,857	—	—	—	—	—	—	—	65,466
Due from:									
Other funds	—	—	—	—	113	—	—	—	133
Component units	—	—	—	—	—	—	—	—	1,293
Other governmental entities	—	—	—	—	—	—	—	—	915
Other assets	—	—	—	—	—	—	—	—	1,456
Restricted assets:									
Cash and cash equivalents in commercial banks	—	20	152	—	54,100	21,397	75,752	—	190,222
Cash and cash equivalents in governmental banks	—	—	—	—	—	—	—	—	208
Cash equivalents in PRGITF	—	—	—	—	—	—	—	—	—
Investments	108,099	—	—	—	—	—	—	—	108,099
Due from other funds	—	—	3,073	—	—	—	3,412	—	167,827
Due from other governmental entities	—	—	—	—	—	—	19,248	—	19,248
Other	481	—	—	—	—	—	35	—	520
Real estate held for sale or future development	—	—	—	—	1,854	—	—	—	1,854
Total assets	$ 145,437	20	3,225	—	56,777	21,397	98,829	—	1,052,599
Liabilities, deferred outflow of resources, and fund balances (deficit):									
Accounts payable and accrued liabilities	$ —	—	—	54	4,353	10,024	34,391	—	145,598
Due to:									
Other funds	—	—	—	—	—	—	45,549	—	49,571
Component units	—	—	—	—	—	—	—	—	8,125
Other governmental entities	—	—	—	—	1	11	3,747	—	8,936
Interest payable	—	278,746	190,432	20,512	—	—	—	—	515,197
Unearned revenue	—	—	—	—	—	—	—	—	951
Notes payable to GDB	—	—	—	—	—	—	—	—	110,976
Commonwealth appropriation bonds	—	—	281	—	—	—	—	—	281
General obligation and revenue bonds	—	112,713	163,250	—	—	—	—	—	275,963
Compensated absences	—	—	—	—	—	—	—	—	620
Other liabilities	—	—	—	—	—	—	—	—	5,052
Total liabilities	—	391,459	353,963	20,566	4,354	10,035	83,687	—	1,121,270
Deferred inflow of resources:									
Global tobacco settlement agreement	36,857	—	—	—	—	—	—	—	36,857
Total deferred inflow of resources	36,857	—	—	—	—	—	—	—	36,857
Fund balances:									
Nonspendable	—	—	—	—	—	—	—	—	127
Restricted for:									
Education	—	—	—	—	—	—	—	—	362,218
Public safety	—	—	—	—	—	—	—	—	36,589
Debt service	108,580	—	—	—	—	—	—	—	108,580
Capital projects	—	—	—	—	52,423	11,362	15,142	—	187,375
Committed to:									
Public housing and welfare	—	—	—	—	—	—	—	—	11,997
Capital projects	—	—	—	—	—	—	—	—	—
Assigned to:									
Capital projects	—	—	—	—	—	—	—	—	—
General Government	—	—	—	—	—	—	—	—	16,149
Health	—	—	—	—	—	—	—	—	22,332
Unassigned (deficit)	—	(391,439)	(350,738)	(20,566)	—	—	—	—	(850,895)
Total fund balances (deficit)	108,580	(391,439)	(350,738)	(20,566)	52,423	11,362	15,142	—	(105,528)
Total liabilities, deferred inflow of resources, and fund balances (deficit)	$ 145,437	20	3,225	—	56,777	21,397	98,829	—	1,052,599

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2018

(In thousands)

	Special Revenue								
	Public Buildings Authority	**Puerto Rico Fiscal Agency and Financial Advisory Authority**	**Puerto Rico Infrastructure Financing Authority**	**Ponce Authority**	**Puerto Rico Systems of Annuities and Pensions for Teachers**	**Retirement System of the Judiciary of the Commonwealth of Puerto Rico**	**Special Communities Perpetual Trust**	**The Children's Trust**	**University of Puerto Rico Comprehensive Cancer Center**
Revenue:									
Intergovernmental	$ 10,437	—	—	—	—	—	—	—	2,252
Interest and investment earnings	97	114	32	—	—	1,244	—	120	75
Other	30	823	7,721	—	23,716	73	32	—	3,977
Total revenue	10,564	937	7,753	—	23,716	1,317	32	120	6,304
Expenditures:									
Current:									
General government	127,065	78,868	1,612	—	—	—	—	17	—
Public safety	—	—	—	—	—	1,563	—	—	—
Health	—	—	—	—	—	—	—	555	19,763
Public housing and welfare	—	—	—	—	—	—	(189)	—	—
Education	—	—	61	—	44,361	—	—	—	—
Economic development	—	—	—	21	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—	—	—	—
Capital outlays	—	365	399	—	1,933	—	—	—	2,440
Debt service:									
Principal	64,719	—	—	—	—	—	—	—	—
Interest and other	15,263	—	7,706	—	—	—	—	—	—
Total expenditures	207,047	79,233	9,778	21	46,294	1,563	(189)	572	22,203
Excess (deficiency) of revenue over (under) expenditures	(196,483)	(78,296)	(2,025)	(21)	(22,578)	(246)	221	(452)	(15,899)
Other financing sources (uses):									
Transfers in	117,435	89,790	13,702	248	69,278	10,009	103	—	23,000
Transfers out	(18,633)	—	(4,556)	—	(200,000)	—	—	(53)	—
Total other financing sources	98,802	89,790	9,146	248	(130,722)	10,009	103	(53)	23,000
Net change in fund balances	(97,681)	11,494	7,121	227	(153,300)	9,763	324	(505)	7,101
Fund balances (deficit) – beginning of year as restated (note 4 to financial statements)	35,758	4,655	101,327	(6,155)	515,518	26,826	(19,738)	11,615	15,358
Fund balances (deficit) – end of year	$ (61,923)	16,149	108,448	(5,928)	362,218	36,589	(19,414)	11,110	22,459

See accompanying independent auditors' report.

(Continued)

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2018

(In thousands)

	Debt Service				Capital Projects				
	The Children's Trust	**Public Buildings Authority**	**Puerto Rico Infrastructure Financing Authority**	**Puerto Rico Maritime Shipping Authority**	**Commonwealth of Puerto Rico**	**Public Buildings Authority**	**Puerto Rico Infrastructure Financing Authority**	**Eliminations**	**Total Nonmajor Governmental Funds**
Revenue:									
Intergovernmental	$ —	36,194	—	—	—	—	—	—	48,883
Interest and investment earnings	3,658	—	30	1	—	—	440	—	5,811
Other	—	—	—	—	—	—	—	—	36,372
Total revenue	3,658	36,194	30	1	—	—	440	—	91,066
Expenditures:									
Current:									
General government	—	—	3	—	842	—	129	—	208,536
Public safety	—	—	—	—	—	—	—	—	1,563
Health	—	—	—	—	—	—	—	—	20,318
Public housing and welfare	—	—	—	—	—	—	50	—	(139)
Education	—	—	—	—	—	—	329	—	44,751
Economic development	—	—	—	56	—	—	726	—	803
Intergovernmental	—	—	—	—	—	—	—	—	—
Capital outlays	—	—	—	—	1,462	—	256	—	6,855
Debt service:									
Principal	36,445	90,905	44,371	—	—	—	—	—	236,440
Interest and other	45,397	227,136	78,124	6,837	—	—	—	—	380,463
Total expenditures	81,842	318,041	122,498	6,893	2,304	—	1,490	—	899,590
Excess (deficiency) of revenue over (under) expenditures	(78,184)	(281,847)	(122,468)	(6,892)	(2,304)	—	(1,050)	—	(808,524)
Other financing sources (uses):									
Transfers in	77,383	15,132	3	—	1,462	3,501	5,121	(26,732)	399,435
Transfers out	—	—	(2)	—	—	—	(3,488)	26,732	(200,000)
Total other financing sources	77,383	15,132	1	—	1,462	3,501	1,633	—	199,435
Net change in fund balances	(801)	(266,715)	(122,467)	(6,892)	(842)	3,501	583	—	(609,089)
Fund balances (deficit) – beginning of year as restated (note 4 to financial statements)	109,381	(124,724)	(228,271)	(13,674)	53,265	7,861	14,559	—	503,561
Fund balances (deficit) – end of year	$ 108,580	(391,439)	(350,738)	(20,566)	52,423	11,362	15,142	—	(105,528)

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Proprietary Funds

Year ended June 30, 2018

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Bureau of Emergency Services 9-1-1

This fund was created by Act No. 144-1994. The Bureau of Emergency Services 9-1-1 is responsible for providing an efficient service of fast response to emergency calls through the 9-1-1 number and transferring these to the appropriate response agencies.

Disability Insurance

This fund was created by Act No. 139-1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to employment.

Drivers' Insurance

This fund was created by Act No. 428-1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Lotteries Fund

This fund accounts for the assets and operations of the two lottery systems administered by the Commonwealth.

Ponce Ports Authority

This fund was created by Act No. 240-2011. It is used to account for the development of the container terminal formerly undertaken by Ponce Authority and handle such facilities future operations.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund

This fund was created by Act No. 32-1997. It is administered, pursuant to Act No. 9-1970, as amended, by the PRDOH. Pursuant to such act, the PRDOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

Puerto Rico Water Pollution Control Revolving Fund

This fund, administered by the EQB, is authorized to enter into operating agreements and capitalization grant agreements with the EPA, mostly for water infrastructure projects, under a joint cooperation agreement between the EQB, PRIFA, PRASA, and the FAFAA, where each entity has agreed to assume their corresponding responsibilities.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Nonmajor Proprietary Funds

June 30, 2018

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds							
	Bureau of Emergency Services 9-1-1	**Disability Insurance**	**Drivers' Insurance**	**Lotteries**	**Ponce Ports Authority**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Puerto Rico Water Pollution Control Revolving Fund**	**Total**
Assets:								
Current assets:								
Cash and cash equivalents in commercial banks	$ —	50,162	10,549	143,332	201	—	—	204,244
Receivables - net:								
Insurance premiums	—	3,195	1,104	—	—	—	—	4,299
Accounts	1,225	—	—	5,239	12	—	—	6,476
Accrued interest	—	57	—	—	—	—	—	57
Other	56	160	—	—	—	—	—	216
Due from other funds	—	—	—	—	4,022	—	—	4,022
Other assets	29	—	—	—	—	—	—	29
Restricted assets:								
Cash and cash equivalents in commercial banks	13,914	1,264	2,182	—	—	2,887	8,462	28,709
Cash and cash equivalents in governmental banks	19	—	—	—	—	—	—	19
Other assets	—	—	—	—	—	—	278	278
Loans from component units	—	—	—	—	—	3,611	7,222	10,833
Total current assets	15,243	54,838	13,835	148,571	4,235	6,498	15,962	259,182
Noncurrent assets:								
Receivables - net:								
Loans from component units – restricted	—	—	—	—	—	142,467	303,378	445,845
Due from other funds	—	—	7,086	8,064	—	—	—	15,150
Restricted investments	—	26,818	—	—	—	—	—	26,818
Other restricted assets	—	—	—	17,762	—	—	353	18,115
Land and other nondepreciable assets	490	—	—	—	28,643	—	—	29,133
Depreciable assets	5,272	—	—	437	—	—	—	5,709
Total assets	21,005	81,656	20,921	174,834	32,878	148,965	319,693	799,952
Deferred outflows of resources:								
Other postemployment benefits related	—	—	—	143	—	—	—	143
Pension related	15,968	—	—	14,052	—	—	—	30,020
Total deferred outflows of resources	15,968	—	—	14,195	—	—	—	30,163
Liabilities and net position:								
Current liabilities:								
Accounts payable and accrued liabilities	2,477	922	278	8,183	77	145	414	12,496
Due to other governmental entities	5,295	1	8	—	—	—	—	5,304
Interest payable	—	—	—	—	5,366	—	—	5,366
Unearned revenue	—	1,673	12	8,353	—	—	—	10,038
Compensated absences	—	185	63	68	—	—	—	316
Obligation for unpaid lottery prizes	—	—	—	91,612	—	—	—	91,612
Voluntary termination benefits payable	—	—	—	423	—	—	—	423
Liability for insurance benefits	—	444	129	—	—	—	—	573
Total other postemployment benefits liability	—	—	—	143	—	—	—	143
Total current liabilities	7,772	3,225	490	108,782	5,443	145	414	126,271
Noncurrent liabilities:								
Notes payable to component units	—	—	—	—	20,863	—	—	20,863
Compensated absences	969	277	94	812	—	—	—	2,152
Obligation for unpaid lottery prizes	—	—	—	73,012	—	—	—	73,012
Voluntary termination benefits payable	128	—	—	1,884	—	—	—	2,012
Net pension liability	50,769	—	—	48,904	—	—	—	99,673
Total other postemployment benefits liability	—	—	—	1,671	—	—	—	1,671
Total liabilities	59,638	3,502	584	235,065	26,306	145	414	325,654
Deferred inflows of resources:								
Pension related	963	—	—	5,011	—	—	—	5,974
Net position:								
Net investment in capital assets	5,761	—	—	437	8,218	—	—	14,416
Restricted for emergency services	6,268	—	—	—	—	—	—	6,268
Restricted for lending activities	—	—	—	—	—	148,820	319,279	468,099
Restricted for payment of insurance benefits	—	27,638	2,052	—	—	—	—	29,690
Unrestricted	(35,657)	50,516	18,285	(51,484)	(1,646)	—	—	(19,986)
Total net position	$ (23,628)	78,154	20,337	(51,047)	6,572	148,820	319,279	498,487

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenses, and Changes in Fund Net Position – Nonmajor Proprietary Funds

Year ended June 30, 2018

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds							
	Bureau of Emergency Services 9-1-1	**Disability Insurance**	**Drivers' Insurance**	**Lotteries**	**Ponce Ports Authority**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Puerto Rico Water Pollution Control Revolving Fund**	**Total**
Operating revenue:								
Insurance premiums	$ —	18,278	4,118	—	—	—	—	22,396
Emergency telephone service charges	19,858	—	—	—	—	—	—	19,858
Lottery ticket sales	—	—	—	618,606	—	—	—	618,606
Interest	—	—	—	—	—	9	27	36
Release of provision for loan losses	—	—	—	—	—	2,619	5,465	8,084
Other	—	—	—	50	67	—	—	117
Total operating revenue	19,858	18,278	4,118	618,656	67	2,628	5,492	669,097
Operating expenses:								
Insurance benefits	—	1,212	692	—	—	—	—	1,904
Lottery ticket sales	—	—	—	392,973	—	—	—	392,973
General, administrative, and other operating expenses	12,562	10,553	2,089	66,346	785	354	575	93,264
Impaiment loss on loan receivable	—	15,750	—	—	—	—	—	15,750
Total operating expenses	12,562	27,515	2,781	459,319	785	354	575	503,891
Operating income (loss)	7,296	(9,237)	1,337	159,337	(718)	2,274	4,917	165,206
Nonoperating revenue (expenses):								
U.S. government grants	—	—	—	—	—	520	5,644	6,164
Contributions to component units	—	—	—	—	—	—	(1,004)	(1,004)
Interest and investment earnings	42	1,248	141	976	—	—	—	2,407
Interest expense	—	—	—	—	(1,497)	—	—	(1,497)
Other	374	—	—	—	—	—	—	374
Total nonoperating revenue (expenses)	416	1,248	141	976	(1,497)	520	4,640	6,444
Income (loss) before transfers	7,712	(7,989)	1,478	160,313	(2,215)	2,794	9,557	171,650
Transfers from other funds	—	—	—	—	—	—	830	830
Transfers to other funds	(7,681)	(7,917)	—	(140,224)	—	—	—	(155,822)
Net change in net position	31	(15,906)	1,478	20,089	(2,215)	2,794	10,387	16,658
Net position – beginning of year, as restated (see note 4 to financial statement)	(23,659)	94,060	18,859	(71,136)	8,787	146,026	308,892	481,829
Net position – end of year	$ (23,628)	78,154	20,337	(51,047)	6,572	148,820	319,279	498,487

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Nonmajor Proprietary Funds

Year ended June 30, 2018

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds							
	Bureau of Emergency Services 9-1-1	**Disability Insurance**	**Drivers' Insurance**	**Lotteries**	**Ponce Ports Authority**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Puerto Rico Water Pollution Control Revolving Fund**	**Total**
Cash flows from operating activities:								
Receipts from customers and users	$ 19,798	18,046	4,022	618,212	—	—	—	660,078
Other receipts	—	—	—	50	30	—	—	80
Payments to suppliers	(2,594)	(6,972)	(738)	(57,972)	(716)	(421)	(496)	(69,909)
Payments to employees	(9,211)	(4,329)	(1,934)	(6,087)	—	—	—	(21,561)
Payments of lottery prizes	—	—	—	(375,966)	—	—	—	(375,966)
Payments of insurance benefits	—	(1,312)	(664)	—	—	—	—	(1,976)
Net cash provided by (used in) operating activities	7,993	5,433	686	178,237	(686)	(421)	(496)	190,746
Cash flows from noncapital financing activities:								
U.S. government grants	—	—	—	—	—	520	5,502	6,022
Contributions to component units	—	—	—	—	—	—	(1,004)	(1,004)
Transfers from other funds	—	—	2,053	—	—	—	830	2,883
Transfers to other funds	(2,487)	(7,917)	—	(133,725)	—	—	—	(144,129)
Net cash provided by (used in) noncapital financing activities	(2,487)	(7,917)	2,053	(133,725)	—	520	5,328	(136,228)
Cash flows from capital and related financing activities:								
Transfers from other funds	—	—	—	—	—	—	—	—
Transfers to other funds	—	—	—	—	—	—	—	—
Principal Payment	—	—	—	—	—	—	—	—
Capital expenditures	—	—	—	(17)	—	—	—	(17)
Net cash provided by (used in) by capital and related financing activities	—	—	—	(17)	—	—	—	(17)
Cash flows from investing activities:								
Interest collected on deposits, investments, and loans	450	772	141	976	—	9	27	2,375
Loans originated	—	—	—	—	—	—	(1,418)	(1,418)
Principal collected on loans	—	—	—	—	—	333	800	1,133
Proceeds from sales and maturities of investments	—	4,291	—	—	—	—	—	4,291
Purchases of investments	—	(4,374)	—	—	—	—	—	(4,374)
Net cash provided by (used in) investing activities	450	689	141	976	—	342	(591)	2,007
Net increase (decrease) in cash and cash equivalents	5,956	(1,795)	2,880	45,471	(686)	441	4,241	56,508
Cash and cash equivalents – beginning of year	7,977	53,221	9,851	97,861	887	2,446	4,221	176,464
Cash and cash equivalents – end of year	$ 13,933	51,426	12,731	143,332	201	2,887	8,462	232,972
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	$ 7,296	(9,237)	1,337	159,337	(718)	2,274	4,917	165,206
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Interests earned on deposits, loans, and investments	—	—	—	—	—	(9)	(27)	(36)
Depreciation	308	4	—	155	—	—	—	467
Provision for bad debt expense	678	—	—	—	—	—	—	678
Impairment (recovery) loss on loans receivable	—	15,750	—	—	—	(2,619)	(5,465)	7,666
Changes in operating assets and liabilities:								
Decrease (increase) in accounts receivable	(60)	(305)	(93)	(1,304)	(37)	—	—	(1,799)
Decrease (increase) in other assets	6	—	—	3,450	—	—	—	3,456
Decrease (increase) in deferred outflow of resources	(615)	—	—	2,044	—	—	—	1,429
Increase (decrease) in accounts payable and accrued liabilities	512	(252)	(182)	2,482	69	(67)	79	2,641
Increase (decrease) in due to other governmental entities	—	—	3	—	—	—	—	3
Increase (decrease) in unearned revenue	—	74	(2)	(2,540)	—	—	—	(2,468)
Increase (decrease) in compensated absences	39	(501)	(405)	(111)	—	—	—	(978)
Increase in deferred inflow of resources	—	—	—	3,975	—	—	—	3,975
Decrease in net pension liability	—	—	—	(5,200)	—	—	—	(5,200)
Decrease in otherpostemployment benefits liability	—	—	—	(449)	—	—	—	(449)
Increase in obligation for unpaid lottery prizes	—	—	—	17,007	—	—	—	17,007
Decrease in voluntary termination benefits payable	(171)	—	—	(609)	—	—	—	(780)
Increase (decrease) in liability for disability benefits payable	—	(100)	28	—	—	—	—	(72)
Total adjustments	697	14,670	(651)	18,900	32	(2,695)	(5,413)	25,540
Net cash provided by (used in) operating activities	$ 7,993	5,433	686	178,237	(686)	(421)	(496)	190,746

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Fiduciary Funds

Year ended June 30, 2018

Fiduciary funds are used to account for funds held by the Commonwealth in an agent capacity for individuals, organizations, and other governmental units. Following are the Commonwealth's fiduciary funds:

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits

This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections, and agency accounts for which the Commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2018

(In thousands)

Assets		Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Cash and cash equivalents in commercial banks	$	629,861	1,775,959	1,432,489	973,331
Cash and cash equivalents with governmental banks		50	—	—	50
Total assets	$	629,911	1,775,959	1,432,489	973,381
Liabilities					
Accounts payable and accrued liabilities	$	629,911	1,775,959	1,432,489	973,381
Total liabilities	$	629,911	1,775,959	1,432,489	973,381

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Year ended June 30, 2018

These entities, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statement No. 39 and No. 61, are discretely presented in a separate column of the basic financial statements of the Primary Government principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because these discretely presented component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority and the Puerto Rico Science, Technology and Research Trust, which does not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude them from the Commonwealth's financial reporting entity). These entities have been classified as nonmajor discretely presented component units because management believes they do not meet the following factors for inclusion as major: a) the services provided by the discretely presented component unit to the citizenry are such that separate reporting as a major discretely presented component unit is considered to be essential to financial statement users, b) there are significant transactions with the Primary Government, or c) there is a significant financial benefit or burden relationship with the Primary Government. The accounting principles followed by each of the discretely presented component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in Note 1 to the basic financial statements.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2018

(In thousands)

	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Center of Diabetes for Puerto Rico	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project
Assets:						
Cash and cash equivalents in commercial banks	$ 54,180	11,712	9,881	983	1,357	3,702
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	107,914	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	305	—
Accounts	393	4,541	3,495	33	—	—
Loans and advances	585	—	—	—	5,749	—
Accrued interest	—	365	—	—	—	—
Other	1,634	2,133	1,629	75	11	—
Due from – net:						
Primary government	25,005	—	—	—	—	—
Component units	—	—	—	—	—	—
Other governmental entities	—	2,414	547	—	—	1,094
Inventories	2,966	—	1,157	2	—	—
Prepaid expenses	1,697	—	271	—	6	3,383
Other assets	—	287	—	—	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	199	—	—	—	—
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	—	—	—	—	—
Other restricted assets	—	—	—	—	497	—
Real estate held for sale or future development	—	—	—	—	1,061	—
Capital assets:						
Land and other nondepreciable	3,739	901	103	—	80	2,117
Depreciable, net	18,201	4,081	13,783	440	2,800	59
Total assets	108,400	134,547	30,866	1,533	11,866	10,355
Deferred outflows of resources:						
Loss on bonds refunding	—	—	—	—	—	—
Other postemployment benefits related	698	384	52	—	—	—
Pension related	29,007	33,550	37,116	—	—	2,498
Total deferred outflows of resources	29,705	33,934	37,168	—	—	2,498
Liabilities:						
Accounts payable and accrued liabilities	57,762	7,177	25,323	65	1,373	288
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	5,415	1,042	36,808	—	—	—
Component units	95,843	—	10,972	—	37,791	—
Other governmental entities	189	4,242	—	222	—	—
Interest payable	—	—	—	—	10,008	—
Unearned revenue	—	39,859	—	—	—	262
Liabilities payable within one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Compensated absences	790	1,326	1,316	58	—	59
Voluntary termination benefits payable	1,686	1,447	—	—	—	—
Liability for insurance benefit	—	60,654	—	—	—	—
Total other postemployment benefits liability	698	384	52	—	—	—
Other long-term liabilities	—	—	360	—	—	—
Liabilities payable after one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Compensated absences	1,032	—	—	40	—	187
Voluntary termination benefits payable	9,746	8,529	—	—	—	—
Net pension obligation	—	—	—	—	—	—
Net pension liability	141,894	147,405	159,489	—	—	6,812
Total other postemployment benefits liability	6,277	4,200	676	—	—	—
Other long-term liabilities	635	839	5,639	—	—	—
Total liabilities	321,967	277,104	240,635	385	49,172	7,608
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Pension related	31,599	18,472	19,986	—	—	130
Total deferred inflows of resources	31,599	18,472	19,986	—	—	130
Net position:						
Net investment in capital assets	21,940	4,981	13,886	440	2,880	2,176
Restricted for:						
Capital projects	—	—	—	—	—	4,166
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	—	—	—	—	497	—
Unrestricted (deficit)	(237,401)	(132,076)	(206,473)	708	(40,683)	(1,227)
Total net position (deficit)	$ (215,461)	(127,095)	(192,587)	1,148	(37,306)	5,115

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2018

(In thousands)

	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Independent Consumer Protection Office	Institute of Puerto Rican Culture
Assets:						
Cash and cash equivalents in commercial banks	$ 79	19,916	3,028	3,012	103	2,633
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	90,839	—	—	—	—
Receivables – net:						
Intergovernmental	—	—	—	—	—	603
Accounts	—	—	—	148	267	399
Loans and advances	—	37,247	—	—	—	—
Accrued interest	—	255	—	—	—	—
Other	—	—	190	—	—	—
Due from – net:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	—	—
Other governmental entities	—	—	4,809	—	—	—
Inventories	—	—	—	—	—	2,040
Prepaid expenses	—	—	54	272	—	—
Other assets	—	17,665	—	—	4	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	—	—	—	—	677
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	—	—	—	—	—
Other restricted assets	—	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets:						
Land and other nondepreciable	640	2,735	—	3,183	—	55
Depreciable, net	151	5,274	137	9,492	24	41,575
Total assets	870	173,931	8,218	16,107	398	47,982
Deferred outflows of resources:						
Loss on bonds refunding	—	—	—	—	—	—
Other postemplyment benefits related	—	36	5	11	—	—
Pension related	507	6,893	924	2,058	—	7,096
Total deferred outflows of resources	507	6,929	929	2,069	—	7,096
Liabilities:						
Accounts payable and accrued liabilities	67	2,221	926	464	28	1,001
Deposits and escrow liabilities	—	144,485	—	413	—	—
Due to:						
Primary government	—	—	—	—	—	—
Component units	—	6,613	9,692	—	—	4,981
Other governmental entities	—	—	—	—	—	—
Interest payable	—	97	—	—	—	893
Unearned revenue	—	—	2,585	—	—	—
Liabilities payable within one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Compensated absences	42	—	153	28	—	17
Voluntary termination benefits payable	10	—	—	239	—	419
Liability for insurance benefits	—	—	—	—	—	—
Total other postemployment benefits liability	—	36	5	11	—	—
Other long-term liabilities	—	—	1,208	—	—	—
Liabilities payable after one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Compensated absences	—	377	336	198	34	324
Voluntary termination benefits payable	54	3,947	—	1,122	—	1,823
Net pension obligation	—	—	—	—	—	—
Net pension liability	2,131	38,862	9,867	11,786	—	36,238
Total other postemployment benefits liability	—	455	51	118	—	—
Other long-term liabilities	—	4,007	—	—	—	—
Total liabilities	2,304	201,100	24,823	14,379	62	45,696
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Pension related	41	4,870	1,236	1,477	—	694
Total deferred inflows of resources	41	4,870	1,236	1,477	—	694
Net position:						
Net investment in capital assets	791	1,400	137	12,675	24	41,631
Restricted for:						
Capital projects	—	—	—	—	—	635
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	—	8,758	—	—	—	810
Unrestricted (deficit)	(1,759)	(35,268)	(17,049)	(10,355)	312	(34,388)
Total net position (deficit)	$ (968)	(25,110)	(16,912)	2,320	336	8,688

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2018

(In thousands)

	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	Musical Arts Corporation	Public Corporation for the Supervision and Deposit Insurance of P.R. Cooperatives
Assets:					
Cash and cash equivalents in commercial banks	$ 5,652	16,235	1,618	5,483	3,502
Cash and cash equivalents in governmental banks	—	2,074	—	—	—
Investments	—	—	—	—	274,378
Receivables – net:					
Intergovernmental	—	1,199	305	—	—
Accounts	1,289	24,543	—	14	—
Loans and advances	—	—	—	—	3,731
Accrued interest	48	—	—	—	1,676
Other	—	—	—	—	88
Due from – net:					
Primary government	—	—	—	—	—
Component units	—	3,017	—	—	—
Other governmental entities	—	1,742	—	13	—
Inventories	—	—	—	—	—
Prepaid expenses	174	—	125	—	—
Other assets	—	3,975	—	6	—
Restricted assets:					
Cash and cash equivalents in commercial banks	—	912	30	211	—
Cash and cash equivalents in governmental banks	—	—	—	—	—
Investments	27,673	—	—	—	—
Other restricted assets	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—
Capital assets:					
Land and other nondepreciable	7,887	88,145	12,432	565	35
Depreciable, net	8,102	5,748	3,970	618	2,053
Total assets	50,825	147,590	18,480	6,910	285,463
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	—
Other postemplyment benefits related	—	318	—	—	—
Pension related	251	28,697	—	2,772	4,863
Total deferred outflows of resources	251	29,015	—	2,772	4,863
Liabilities:					
Accounts payable and accrued liabilities	1,354	4,317	462	306	240,744
Deposits and escrow liabilities	—	2,482	187	—	—
Due to:					
Primary government	—	32,167	—	—	—
Component units	—	30,292	—	—	—
Other governmental entities	—	1,104	17,829	652	—
Interest payable	—	451	—	—	—
Unearned revenue	—	9,032	—	203	—
Liabilities payable within one year:					
Commonwealth appropriation bonds	—	5,785	—	—	—
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	3,029
Capital leases	—	—	—	—	—
Compensated absences	28	644	101	660	2,235
Voluntary termination benefits payable	—	833	—	48	—
Liability for insurance benefits	—	—	—	—	—
Total other postemplyment benefits liability	—	318	—	—	—
Other long-term liabilities	—	1,029	—	—	—
Liabilities payable after one year:					
Commonwealth appropriation bonds	—	50,033	—	—	—
Revenue bonds	—	—	—	—	—
Notes payable to financial institutions	—	—	—	—	9,086
Capital leases	—	—	—	—	—
Compensated absences	—	756	—	—	—
Voluntary termination benefits payable	—	3,433	—	413	—
Net pension obligation	—	—	—	20,415	—
Net pension liability	1,065	109,567	—	10,387	34,812
Total other postemplyment benefits liability	—	3,804	—	—	—
Other long-term liabilities	—	36,679	—	—	—
Total liabilities	2,447	292,726	18,579	33,084	289,906
Deferred inflows of resources:					
Service concession arrangements	—	—	—	—	—
Pension related	20	13,731	—	199	4,362
Total deferred inflows of resources	20	13,731	—	199	4,362
Net position:					
Net investment in capital assets	15,989	93,893	(271)	1,183	2,088
Restricted for:					
Capital projects	—	—	—	—	—
Debt service	—	—	30	—	—
Student loans and other educational purpose	—	—	—	—	—
Other specified purposes	30,745	—	—	211	93,529
Unrestricted (deficit)	1,875	(223,745)	142	(24,995)	(99,559)
Total net position (deficit)	$ 48,609	(129,852)	(99)	(23,601)	(3,942)

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2018

(In thousands)

	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Council on Education	Puerto Rico Energy Commission	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority
Assets:						
Cash and cash equivalents in commercial banks	$ 2,001	11,937	649	5,313	35,463	129
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	7,898	—	—	—	—
Receivables – net:						
Intergovernmental	—	—	—	—	—	—
Accounts	—	9,523	459	1,008	20,769	—
Loans and advances	—	—	—	—	—	—
Accrued interest	—	—	—	—	—	—
Other	917	—	—	—	—	—
Due from – net:						
Primary government	—	—	—	—	—	—
Component units	—	6,311	—	2,900	—	—
Other governmental entities	—	—	222	—	—	—
Inventories	—	—	—	—	—	—
Prepaid expenses	1	7,981	—	—	1,709	—
Other assets	—	285	—	—	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks	2,807	8,473	841	—	—	—
Cash and cash equivalents in governmental banks	—	—	—	—	—	—
Investments	—	822	—	—	2,393	—
Other restricted assets	—	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets:						
Land and other nondepreciable	5,157	278,682	—	444	237,681	—
Depreciable, net	68,626	362,711	27	590	385,009	—
Total assets	79,509	694,623	2,198	10,255	683,024	129
Deferred outflows of resources:						
Loss on bonds refunding	—	—	—	—	466	—
Other postemployment benefits related	—	—	4	—	459	—
Pension related	4,726	—	1,675	—	26,111	—
Total deferred outflows of resources	4,726	—	1,679	—	27,036	—
Liabilities:						
Accounts payable and accrued liabilities	731	10,672	929	457	13,431	24
Deposits and escrow liabilities	—	8,152	—	—	7,673	—
Due to:						
Primary government	—	—	—	—	14,600	—
Component units	—	146,423	—	—	80,153	—
Other governmental entities	—	—	—	—	—	—
Interest payable	—	57,595	—	—	20,745	—
Unearned revenue	936	4,646	—	—	—	—
Liabilities payable within one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	24,150	—	—	15,791	—
Notes payable to financial institutions	—	—	—	—	18,345	—
Capital leases	—	—	—	—	186	—
Compensated absences	67	—	71	6	509	—
Voluntary termination benefits payable	21	—	91	—	1,927	—
Liability for insurance benefits	—	—	—	—	—	—
Total other postemployment benefits liability	—	—	4	—	459	—
Other long-term liabilities	—	—	—	—	1,560	—
Liabilities payable after one year:						
Commonwealth appropriation bonds	—	—	—	—	—	—
Revenue bonds	—	365,673	—	—	134,012	—
Notes payable to financial institutions	—	—	—	—	64,029	—
Capital leases	—	—	—	—	18	—
Compensated absences	74	—	535	117	638	—
Voluntary termination benefits payable	13	—	738	—	8,647	—
Net pension obligation	—	—	—	—	—	—
Net pension liability	22,445	—	9,140	—	150,378	—
Total other postemployment benefits liability	—	—	39	—	5,270	—
Other long-term liabilities	—	—	—	—	22,532	—
Total liabilities	24,287	617,311	11,547	580	560,903	24
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Pension related	430	—	1,145	—	23,122	—
Total deferred inflows of resources	430	—	1,145	—	23,122	—
Net position:						
Net investment in capital assets	73,783	48,690	27	1,035	390,309	—
Restricted for:						
Capital projects	—	822	—	—	—	—
Debt service	—	—	—	—	2,393	—
Student loans and other educational purpose	2,807	—	802	—	—	—
Other specified purposes	—	321	—	—	—	—
Unrestricted (deficit)	(17,072)	27,479	(9,644)	8,640	(266,667)	105
Total net position (deficit)	$ 59,518	77,312	(8,815)	9,675	126,035	105

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2018

(In thousands)

	Puerto Rico Integrated Transit Authority	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency
Assets:					
Cash and cash equivalents in commercial banks	$ 5,020	9,583	2,334	1,785	—
Cash and cash equivalents in governmental banks	—	—	3	—	—
Investments	—	—	—	—	—
Receivables – net:					
Intergovernmental	—	—	—	349	—
Accounts	—	—	544	—	—
Loans and advances	—	—	—	—	—
Accrued interest	—	—	—	—	—
Other	—	864	—	44	—
Due from – net:					
Primary government	2,850	—	—	—	—
Component units	—	—	—	1,306	—
Other governmental entities	—	1,236	—	—	—
Inventories	—	—	—	4,112	—
Prepaid expenses	—	169	179	—	2,012
Other assets	—	—	—	—	—
Restricted assets:					
Cash and cash equivalents in commercial banks	—	—	—	—	35,388
Cash and cash equivalents in governmental banks	—	—	—	—	—
Investments	—	—	—	—	519,126
Other restricted assets	—	—	—	—	12,158
Real estate held for sale or future development	—	182,739	—	—	28
Capital assets:					
Land and other nondepreciable	—	14,509	93	2,769	—
Depreciable, net	196	10,855	51,389	15,764	—
Total assets	8,066	219,955	54,542	26,129	568,712
Deferred outflows of resources:					
Loss on bonds refunding	—	—	—	—	902
Other postemployment benefits related	—	82	19	698	—
Pension related	—	7,190	13,528	68,124	—
Total deferred outflows of resources	—	7,272	13,547	68,822	902
Liabilities:					
Accounts payable and accrued liabilities	136	3,190	9,855	13,821	2,457
Deposits and escrow liabilities	—	32,607	—	—	23,535
Due to:					
Primary government	—	2,021	2,968	102,913	—
Component units	—	—	71,662	6,422	—
Other governmental entities	2,415	—	1,565	—	—
Interest payable	—	—	—	—	10,096
Unearned revenue	—	1,932	—	—	—
Liabilities payable within one year:					
Commonwealth appropriation bonds	—	—	—	—	—
Revenue bonds	—	—	—	—	67,245
Notes payable to financial institutions	—	—	—	28,255	—
Capital leases	—	—	—	—	—
Compensated absences	—	233	740	1,125	—
Voluntary termination benefits payable	—	497	335	620	—
Liability for insurance benefits	—	—	—	—	—
Total other postemployment benefits liability	—	82	19	698	—
Other long-term liabilities	—	—	487	—	—
Liabilities payable after one year:					
Commonwealth appropriation bonds	—	—	—	—	—
evenue bonds	—	—	—	—	408,425
Notes payable to financial institutions	—	—	—	—	—
Capital leases	—	—	—	—	—
Compensated absences	5	—	1,566	728	—
Voluntary termination benefits payable	—	1,859	2,736	2,715	—
Net pension obligation	—	—	—	—	—
Net pension liability	—	31,494	61,824	306,688	—
Total other postemployment benefits liability	—	971	136	8,392	—
Other long-term liabilities	—	—	3,611	4,729	—
Total liabilities	2,556	74,886	157,504	477,106	511,758
Deferred inflows of resources:					
Service concession arrangements	—	—	—	—	—
Pension related	—	3,946	7,748	38,433	—
Total deferred inflows of resources	—	3,946	7,748	38,433	—
Net position:					
Net investment in capital assets	196	25,364	51,482	18,533	—
Restricted for:					
Capital projects	—	—	—	—	—
Debt service	—	—	—	—	83,820
Student loans and other educational purpose	—	—	—	—	—
Other specified purposes	—	—	—	—	—
Unrestricted (deficit)	5,314	123,031	(148,645)	(439,121)	(25,964)
Total net position (deficit)	$ 5,510	148,395	(97,163)	(420,588)	57,856

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2018

(In thousands)

		Puerto Rico Municipal Finance Corporation	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts
Assets:						
Cash and cash equivalents in commercial banks	$	33,032	13,456	469	17,413	628
Cash and cash equivalents in governmental banks		—	—	—	—	—
Investments		—	—	—	—	—
Receivables – net:						
Intergovernmental		20,747	—	—	—	—
Accounts		230	25,874	183	3,309	992
Loans and advances		—	—	—	—	—
Accrued interest		—	—	—	—	—
Other		—	—	70	—	—
Due from – net:						
Primary government		—	—	—	—	—
Component units		—	—	—	—	—
Other governmental entities		—	4,314	224	—	—
Inventories		—	—	—	—	—
Prepaid expenses		—	3,464	—	—	—
Other assets		—	—	85	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks		—	19,194	738	—	—
Cash and cash equivalents in governmental banks		—	—	—	—	—
Investments		—	—	—	—	2,526
Other restricted assets		—	25,351	—	—	—
Real estate held for sale or future development		—	—	—	—	—
Capital assets:						
Land and other nondepreciable		—	359,767	83	—	—
Depreciable, net		—	863,850	4,263	2	7,656
Total assets		54,009	1,315,270	6,115	20,724	11,802
Deferred outflows of resources:						
Loss on bonds refunding		—	10,266	—	—	—
Other postemployment benefits related		—	655	43	—	—
Pension related		—	57,982	9,965	310	3,595
Total deferred inflows of resources		—	68,903	10,008	310	3,595
Liabilities:						
Accounts payable and accrued liabilities		—	24,592	2,487	5,462	808
Deposits and escrow liabilities		—	1,316	—	—	—
Due to:						
Primary government		—	86,431	1,547	—	—
Component units		22,609	317,156	—	6,302	—
Other governmental entities		21,114	4,639	—	604	—
Interest payable		—	96,003	—	—	—
Unearned revenue		—	149	—	14,104	—
Liabilities payable within one year:						
Commonwealth appropriation bonds		—	—	—	—	—
Revenue bonds		—	196,226	—	—	—
Notes payable to financial institutions		—	1,382	—	—	—
Capital leases		—	—	—	—	—
Compensated absences		—	2,068	830	—	34
Voluntary termination benefits payable		—	1,369	300	—	—
Liability for insurance benefits		—	—	—	—	—
Total other postemployment benefits liability		—	655	43	—	—
Other long-term liabilities		—	280	—	—	—
Liabilities payable after one year:		—	—	—	—	—
Commonwealth appropriation bonds		—	—	—	—	—
revenue bonds		—	—	—	—	—
Notes payable to financial institutions		—	8,436	—	—	—
Capital leases		—	—	—	—	—
Compensated absences		—	—	1,342	—	34
Voluntary termination benefits payable		—	7,779	1,903	—	—
Net pension obligation		—	—	—	—	—
Net pension liability		—	249,587	45,120	1,883	14,053
Total other postemployment benefits liability		—	7,510	504	—	—
Other long-term liabilities		—	105	1,680	—	—
Total liabilities		43,723	1,005,683	55,756	28,355	14,929
Deferred inflows of resources:						
Service concession arrangements		—	661,980	—	—	—
Pension related		—	42,066	5,654	236	269
Total deferred inflows of resources		—	704,046	5,654	236	269
Net position:						
Net investment in capital assets		—	520,997	4,346	2	7,656
Restricted for:						
Capital projects		—	44,545	—	—	—
Debt service		—	—	—	—	—
Student loans and other educational purpose		—	—	—	—	2,526
Other specified purposes		—	—	1,270	—	—
Unrestricted (deficit)		10,286	(891,098)	(50,903)	(7,559)	(9,983)
Total net position (deficit)	$	10,286	(325,556)	(45,287)	(7,557)	199

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2018

(In thousands)

	Puerto Rico Science, Technology and Research Trust	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Solid Waste Authority	Nonmajor Component Units Total
Assets:						
Cash and cash equivalents in commercial banks	$ 15,153	—	45,505	6,667	12,632	362,245
Cash and cash equivalents in governmental banks	3,443	—	—	—	—	5,520
Investments	45,987	—	—	—	—	527,016
Receivables – net:						
Intergovernmental	—	—	—	—	186	23,694
Accounts	—	—	13,304	2,663	—	113,980
Loans and advances	—	—	6,118	—	—	53,430
Accrued interest	—	—	—	3,307	—	5,651
Other	1,658	—	9	—	578	9,900
Due from – net:						
Primary government	—	—	—	—	2,923	30,778
Component units	—	—	—	—	—	13,534
Other governmental entities	2,904	—	—	—	306	19,825
Inventories	—	—	—	—	—	10,277
Prepaid expenses	—	—	16	45	—	21,558
Other assets	129	—	—	—	133	22,569
Restricted assets:						
Cash and cash equivalents in commercial banks	—	—	42,640	6,686	—	118,796
Cash and cash equivalents in governmental banks	—	1	—	—	—	1
Investments	3,200	—	—	245,207	—	800,947
Other restricted assets	—	—	—	—	—	38,006
Real estate held for sale or future development	—	—	2,600	—	—	186,428
Capital assets:						
Land and other nondepreciable	38,579	—	5,053	40,048	12,966	1,118,448
Depreciable, net	6,125	—	16,443	36,903	86,210	2,033,127
Total assets	117,178	1	131,688	341,526	115,934	5,515,730
Deferred outflows of resources:						
Loss on bonds refunding	—	—	1,210	—	—	12,844
Other postemployment benefits related	—	—	183	104	—	3,751
Pension related	—	—	30,712	10,326	3,181	393,657
Total deferred outflows of resources	—	—	32,105	10,430	3,181	410,252
Liabilities:						
Accounts payable and accrued liabilities	6,331	10	37,466	4,264	4,742	485,743
Deposits and escrow liabilities	—	—	—	2,615	—	223,465
Due to:						
Primary government	—	—	2,831	4,615	—	293,358
Component units	—	—	11,988	—	75,906	934,805
Other governmental entities	—	—	48,708	2,606	4,733	110,622
Interest payable	—	—	8,356	3,074	24,210	231,528
Unearned revenue	—	—	—	—	4,717	78,425
Liabilities payable within one year:						
Commonwealth appropriation bonds	—	—	4,611	—	806	11,202
Revenue bonds	—	—	—	—	—	303,412
Notes payable to financial institutions	—	—	—	645	—	51,656
Capital leases	—	—	180	70	—	436
Compensated absences	—	—	1,266	441	205	15,052
Voluntary termination benefits payable	—	—	766	642	323	11,573
Liability for insurance benefits	—	—	—	—	—	60,654
Total other postemployment benefits liability	—	—	183	104	—	3,751
Other long-term liabilities	11	—	1,050	—	—	5,985
Liabilities payable after one year:						
Commonwealth appropriation bonds	—	—	40,571	—	6,987	97,591
Revenue bonds	—	—	—	—	—	908,110
Notes payable to financial institutions	—	—	—	256,941	—	338,492
Capital leases	—	—	321	65	—	404
Compensated absences	—	—	—	42	197	8,562
Voluntary termination benefits payable	—	—	3,775	2,544	2,586	64,362
Net pension obligation	—	—	—	—	—	20,415
Net pension liability	—	—	128,409	45,521	15,895	1,792,752
Total other postemployment benefits liability	—	—	2,209	1,205	—	41,817
Other long-term liabilities	—	—	—	1,090	—	81,546
Total liabilities	6,342	10	292,690	326,484	141,307	6,175,718
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	661,980
Pension related	—	—	16,092	5,704	1,740	243,402
Total deferred inflows of resources	—	—	16,092	5,704	1,740	905,382
Net position:						
Net investment in capital assets	44,704	—	20,995	64,437	27,315	1,515,714
Restricted for:						
Capital projects	—	—	—	—	—	50,168
Debt service	—	—	—	—	—	86,243
Student loans and other educational purpose	—	—	—	—	—	6,135
Other specified purposes	3,200	(9)	—	5,751	—	145,083
Unrestricted (deficit)	62,932	—	(165,984)	(50,420)	(51,247)	(2,958,461)
Total net position (deficit)	$ 110,836	(9)	(144,989)	19,768	(23,932)	(1,155,118)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Activities

Year ended June 30, 2018

(In thousands)

		Program revenue				General revenue and transfers									
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Net revenues (expenses) and changes in net position	Payments from (to) primary government	Payments from (to) other component units	Grants and contributions not restricted to specific programs	Interest and invest-ment earnings	Excise taxes and others	Change in net position	Net position (deficit) beginning of year as previously reported	Correction of errors, change in reporting entity and adoption of new pronouncements (note 4 to financial statements)	Net position (deficit)– beginning of year, as restated	Net position (deficit) end of year
Agricultural Enterprises Development Administration	$ 136,106	75,084	—	—	(61,022)	80,133	—	—	96	2,319	21,526	(228,279)	(8,708)	(236,987)	(215,461)
Automobile Accidents Compensation Administration	67,203	78,468	—	—	11,265	(1,550)	—	—	5,820	961	16,496	(141,327)	(2,264)	(143,591)	(127,095)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	88,754	81,159	—	25	(7,570)	—		—	—	—	(7,570)	(186,404)	1,387	(185,017)	(192,587)
Center of Diabetes for Puerto Rico	951	181	—	—	(770)	450	—	—	1	3	(316)	1,464	—	1,464	1,148
Company for the Integral Development of the "Península de Cantera"	4,055	—	922	—	(3,133)	—	—	12	41	100	(2,980)	(34,326)	—	(34,326)	(37,306)
Corporation for the "Caño Martin Peña" Enlace Project	8,003	—	1,366	176	(6,461)	11,025	—	—	23	—	4,587	456	72	528	5,115
Culebra Conservation and Development Authority	285	63	—	—	(222)	227	—	—	—	—	5	(973)	—	(973)	(968)
Economic Development Bank for Puerto Rico	37,802	4,098	—	—	(33,704)	—	—	—	—	420	(33,284)	8,749	(575)	8,174	(25,110)
Farm Insurance Corporation of Puerto Rico	15,211	1,934	740	—	(12,537)	6,515	—	—	16	—	(6,006)	(10,840)	(66)	(10,906)	(16,912)
Fine Arts Center Corporation	7,202	1,947	—	—	(5,255)	3,148	—	349	4	75	(1,679)	4,140	(141)	3,999	2,320
Independent Consumer Protection Office	536	—	—	—	(536)	—	580	—	—	—	44	292	—	292	336
Institute of Puerto Rican Culture	10,713	—	1,787	30	(8,896)	6,774	—	—	—	—	(2,122)	12,322	(1,512)	10,810	8,688
Institutional Trust of the National Guard of Puerto Rico	5,653	6,429	—	—	776	—	—	—	—	—	776	47,833	—	47,833	48,609
Land Authority of Puerto Rico	33,690	8,527	648	—	(24,515)	—	—	—	—	587	(23,928)	(88,274)	(17,650)	(105,924)	(129,852)
Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads	2,439	874	988	—	(577)	890	—	—	—	—	313	(412)	—	(412)	(99)
Musical Arts Corporation	6,586	365	—	—	(6,221)	7,515	—	—	11	74	1,379	(24,980)	—	(24,980)	(23,601)
Public Corporation for the Supervision and Deposit Insurance of Puerto	—														
Rico Cooperatives	76,936	24,455	598	—	(51,883)	—	—	—	—	1,820	(50,063)	46,121	—	46,121	(3,942)
Puerto Rico Conservatory of Music Corporation	10,036	3,427	—	30	(6,579)	5,613	—	467	6	30	(463)	59,981	—	59,981	59,518
Puerto Rico Convention Center District Authority	74,755	28,486	—	—	(46,269)	—	4,195	—	36	1,628	(40,410)	117,722	—	117,722	77,312
Puerto Rico Council on Education	11,334	381	1,814	—	(9,139)	9,127	—	—	67	54	109	(8,924)	—	(8,924)	(8,815)
Puerto Rico Energy Commission	2,703	—	1,611	—	(1,092)	—	5,220	—	21	—	4,149	5,526	—	5,526	9,675
Puerto Rico Industrial Development Company	95,887	60,149	—	2,774	(32,964)	—	—	—	350	11,533	(21,081)	153,724	(6,608)	147,116	126,035
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental	—														
Control Facilities Financing Authority	33	—	—	—	(33)	—	—	—	9	—	(24)	129	—	129	105
Puerto Rico Integrated Transit Authority	885	—	—	—	(885)	5,225	(4,232)	—	13	—	121	3,463	1,926	5,389	5,510
Puerto Rico Land Administration	15,906	11,077	—	—	(4,829)	—	—	—	20	—	(4,809)	154,435	(1,231)	153,204	148,395
Puerto Rico and Municipal Islands Maritime Transport Authority	30,019	4,100	12,205	—	(13,714)	13,300	—	—	—	—	(414)	(40,550)	(56,199)	(96,749)	(97,163)
Puerto Rico Metropolitan Bus Authority	60,660	2,799	5,397	—	(52,464)	24,300	4,232	—	76	2,306	(21,550)	(387,941)	(11,097)	(399,038)	(420,588)
Puerto Rico Municipal Finance Agency	24,296	—	—	—	(24,296)	—	—	—	36,584	15	12,303	47,081	(1,528)	45,553	57,856
Puerto Rico Municipal Finance Corporation	122,824	—	122,039	—	(785)	—	4,428	—	3,043	242,927	249,613	(239,327)	—	(239,327)	10,286
Puerto Rico Ports Authority	138,008	114,059	4,148	—	(19,801)	—	—	—	90	112	(19,599)	(299,862)	(6,095)	(305,957)	(325,556)
Puerto Rico Public Broadcasting Corporation	17,358	2,270	—	—	(15,088)	9,900	—	3,227	235	—	(1,726)	(42,924)	(637)	(43,561)	(45,287)
Puerto Rico Public Private Partnerships Authority	4,290	100	—	—	(4,190)	4,298	—	—	36	9	153	(6,529)	(1,181)	(7,710)	(7,557)
Puerto Rico School of Plastic Arts	4,730	1,674	1,708	—	(1,348)	2,917	—	—	212	—	1,781	(1,582)	—	(1,582)	199
Puerto Rico Science, Technology and Research Trust	17,850	129	22,626	—	4,905	—	—	—	21	494	5,420	105,416	—	105,416	110,836
Puerto Rico Telephone Authority	52	—	—	—	(52)	—	—	—	17	—	(35)	26	—	26	(9)
Puerto Rico Tourism Company	143,448	160,372	—	—	16,924	(21,426)	(68,473)	—	—	73,542	567	(142,796)	(2,760)	(145,556)	(144,989)
Puerto Rico Trade and Export Company	34,370	14,633	690	—	(19,047)	—	—	—	12,404	634	(6,009)	24,325	1,452	25,777	19,768
Solid Waste Authority	18,328	2,496	832	—	(15,000)	3,995	—	—	52	—	(10,953)	(20,425)	7,446	(12,979)	(23,932)
Total nonmajor component units	$ 1,329,897	689,736	180,119	3,035	(457,007)	172,376	(54,050)	4,055	59,304	339,643	64,321	(1,113,470)	(105,969)	(1,219,439)	(1,155,118)

See accompanying independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information

June 30, 2017

(With Independent Auditors' Report Thereon)

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Table of Contents

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

To the Retirement Board of the Government of Puerto Rico
Employees' Retirement System of
the Government of the Commonwealth of Puerto Rico:

We have audited the accompanying financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System), which comprises the statement of fiduciary net position as of June 30, 2017, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of June 30, 2017, and the changes in its fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As discussed in notes 3 and 14 to the basic financial statements, the System is severely underfunded, sold its remaining investments in the aggregate amount of approximately $297 million, and started operating on a pay as you go basis in fiscal year 2018. Additionally, on May 3, 2017 and May 22, 2017, the Financial Oversight and Management Board commenced cases for the Commonwealth of Puerto Rico and the System, respectively, by filling petitions for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act with the United States District Court for Puerto Rico. Accordingly, management of the System has stated that substantial doubt exists about the System's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also included in note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–14 and the schedules in pages 75-81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
June 29, 2020

Stamp No. E403599 of the Puerto Rico
Society of Certified Public Accountants was
affixed to the record copy of this report.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Introduction

The following discussion and analysis of the financial performance of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) provides an overview of its activities for the fiscal year ended June 30, 2017. Its purpose is to provide explanations and insights into the information presented in the basic financial statements and required supplementary information. This discussion and analysis is intended to be read in conjunction with the System's financial statements.

The System is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Legislature) in 1951 pursuant to Act No. 447 of May 15, 1951, as amended, to provide pension and other benefits to retired employees of the Commonwealth of Puerto Rico (the Commonwealth), its public corporations and municipalities. Prior to August 23, 2017, the System was administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) and governed by a board of trustees (the Board of Trustees).

Prior to August 23, 2017, the System administered a cost-sharing, multi-employer, pension plan consisting of three benefit structures: (i) a cost-sharing, multi-employer, defined benefit program, (ii) a defined contribution program (System 2000 program), and (iii) a contributory hybrid program. The System also administered post-employment healthcare benefits provided by the Commonwealth to retired plan members (Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC).

The System is considered an integral part of the financial reporting of the Commonwealth and is included in the Commonwealth's basic financial statements as a pension trust fund.

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The basic financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organization per Governmental Accounting Standards Board (GASB) pronouncements and include the following:

- The Statement of Fiduciary Net Position presents the financial position of the System at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the System presently controls (assets), consumption of net assets by the System that is applicable to a future reporting period (deferred outflow of resources), presents obligations to sacrifice resources that the System has little or no discretion to avoid (liabilities), and acquisition of net assets by the System that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- The Statement of Changes in Fiduciary Net Position presents the results of activities during the fiscal year. All changes affecting the assets/deferred outflow of resources and liabilities/deferred inflow of resources of the System are reflected on an accrual basis of when the activity occurred, regardless of the timing of the related cash flows. Changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2017

- The Notes to the Basic Financial Statements – provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Required Supplementary Information is presented after the notes to the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB. It consists of information pertaining to the System's actuarial methods and assumptions and provides data on changes in the employers' net pension liability and related ratios, the pension benefits employers' contributions, and the pension benefits' investment return as well as data on the System's other postemployment benefits.

Financial Highlights

Prior to August 23, 2017, the System provided retirement benefits to employees of the Commonwealth, its public corporations and municipalities. The System's total assets as of June 30, 2017 and 2016 amounted to approximately $1,505 million and $2,284 million, respectively.

As of June 30, 2017, the System's total assets consisted of the following:

- $345 million of investments in bonds, stocks and non-exchange commingled trust funds
- $87 million in investments in limited partnerships
- $523 million in member loans and interest receivable
- $539 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $11 million in capital and other assets

The System's total assets as of June 30, 2017 are presented in the following chart (in millions):

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

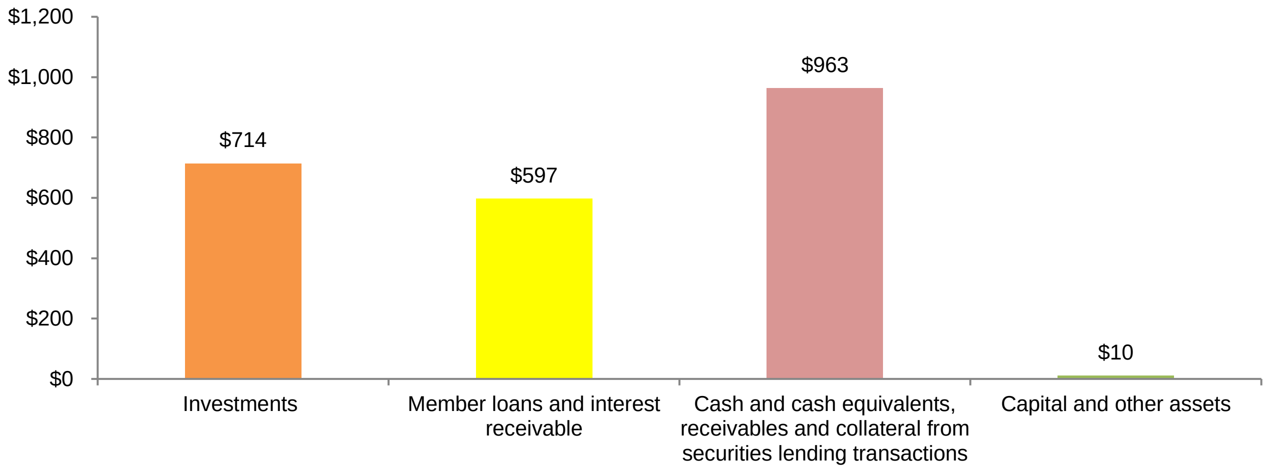
Management's Discussion and Analysis (Unaudited)

June 30, 2017

As of June 30, 2016, the System's total assets consisted of the following:

- $667 million of investments in bonds, stocks and non-exchange commingled trust funds
- $47 million in investments in limited partnerships
- $597 million in member loans and interest receivable
- $963 million in cash and cash equivalents, receivables and collateral from securities lending transactions.
- $10 million in capital and other assets

The System's total assets as of June 30, 2016 are presented in the following chart (in millions):



- The System has been in a deficit position since fiscal year 2015. The System's total liabilities exceeded total assets, representing a fiduciary net deficit position of approximately $2,109 million as of June 30, 2017, compared with fiduciary net position of approximately $1,266 million as of June 30, 2016.
- The plan's fiduciary net deficit position as a percentage of the total pension liability was negative 7.01% at June 30, 2017 and negative 3.47% at June 30, 2016.
- The medical insurance plan contribution, which constitutes the other postemployment healthcare benefits, is financed by the Commonwealth on a pay-as-you-go basis and consequently is unfunded.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

The following schedules present comparative summary financial statements of the System's fiduciary net position and changes in fiduciary net position for fiscal years 2017 and 2016:

Comparative Summary of Fiduciary Net Position – Pension Benefits

		2017	2016	Total dollar change	Total percentage change
			(Dollars in thousands)		
Assets:					
Cash and cash equivalents, receivables-net and collateral from securities lending transactions	$	538,520	962,706	(424,186)	(44.1)%
Investments		431,955	714,214	(282,259)	(39.5)
Member loans and interest receivable – net		523,443	596,997	(73,554)	(12.3)
Capital assets and other		10,718	10,487	231	2.2
Total assets		1,504,636	2,284,404	(779,768)	(34.1)
Liabilities:					
Accounts payable and accrued liabilities		279,366	104,315	175,051	167.8
Bond interest payable		14,076	14,094	(18)	(0.1)
Payable for investment securities purchased		—	1,609	(1,609)	(100.0)
Securities lending obligations		7,359	19,754	(12,395)	(62.7)
Due to Commonwealth of Puerto Rico		98,044	91,474	6,570	7.2
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members		11,018	10,467	551	5.3
Accrued Investment Expense		541	—	541	100.0
Bonds payable		3,166,472	3,134,902	31,570	1.0
Other liabilities		36,613	173,674	(137,061)	(78.9)
Total liabilities		3,613,489	3,550,289	63,200	1.8
Net position (deficit)	$	(2,108,853)	(1,265,885)	(842,968)	66.6%

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Comparative Summary of Changes in Fiduciary Net Position – Pension Benefits

		2017	2016	Total dollar change	Total percentage change
			(Dollars in thousands)		
Additions:					
Contributions:					
Employer contributions:					
Basic benefits	$	726,911	582,803	144,108	24.7%
Special benefits		194,626	196,674	(2,048)	(1.0)
Member contributions		320,095	333,633	(13,538)	(4.1)
Net investment income		28,155	37,345	(9,190)	(24.6)
Other income		56,626	52,791	3,835	7.3
Total additions		1,326,413	1,203,246	123,167	10.2
Deductions:					
Benefits paid to participants		1,524,695	1,532,640	(7,945)	(0.5)
Refunds of contributions		35,229	34,937	292	0.8
Interest on bonds payable		198,084	196,211	1,873	1.0
General and administrative		24,358	27,670	(3,312)	(12.0)
Other expenses		387,015	9,401	377,614	4,016.7
Total deductions		2,169,381	1,800,859	368,522	20.5
Net decrease in net position		(842,968)	(597,613)	(245,355)	41.1
Net position (deficit):					
Beginning of year		(1,265,885)	(668,272)	(597,613)	89.4
End of year	$	(2,108,853)	(1,265,885)	(842,968)	66.6%

Going Concern

The discussion in note 3 to the financial statements provides information regarding the System's going concern uncertainty.

As of June 30, 2017, the System was a mature retirement system with a significant retiree population. The System's net pension liability and the fiduciary net deficit position as a percentage of the total pension liability (the funded ratio) as of June 30, 2017, are approximately $32,201 million and negative 7.01%, respectively. The System had been in a deficit position since fiscal year 2015. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the System were significantly larger than the member and employers' contributions to the System. Due to the small asset base, investment income was insufficient to cover the negative cash flow. Illiquid assets (total receivables, member loans and related interest receivable, COFINA investment and investments in limited partnership) amounted to approximately $723 million or 48% of the System's total assets as of June 30, 2017.

As described in notes 3 and 14 to the financial statements, in July 2017, the System sold investments amounting to approximately $297 million and transferred approximately $190 million of the net proceeds to the Treasury Department as required under Joint Resolution 188.

On June 30, 2016, the U.S. Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which automatically put into effect a temporary stay of all debt-related litigation against the Commonwealth and its covered instrumentalities, including the System, pursuant to section 405 of PROMESA (the Title IV Stay). On May 1, 2017, the Title IV Stay expired, permitting substantial litigation to resume against the Commonwealth and its covered instrumentalities, including the System. On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico established under PROMESA (the Oversight Board), at the request of the Governor of Puerto Rico (the Governor), commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the System by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

On August 23, 2017, the Commonwealth enacted the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106-2017), which completely changed the System by, among other things, (i) replacing the governing boards of the System, the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), and the Puerto Rico System of Annuities and Pensions for Teachers (TRS, and collectively with the System and JRS, the Retirement Systems) with a single Retirement Board of the Commonwealth of Puerto Rico (the Retirement Board) and (ii) implementing a "pay-as-you-go" (PayGo) method for the payment of pension benefits by the Commonwealth rather than the System. Act 106-2017 created the legal framework for the Commonwealth to guarantee payments to pensioners through the PayGo system.

Comparative Summary of Fiduciary Net Position Analysis – Pension Benefits

The basic financial statements of the System for the fiscal year ended June 30, 2017, present a decrease in net position of approximately $843 million, resulting in a net deficit position of approximately $2,109 million as of June 30, 2017, compared with a deficit net position of approximately $1,266 million as of June 30, 2016. The decrease in the net position (increase in deficit) in fiscal year 2017 resulted from the excess of deductions, mainly other expenses and benefits paid to participants, over additions, mainly contributions from participating employers and employees. The decrease in net position is mainly caused by a decrease in employer contributions receivable of approximately $204 million in fiscal year 2017.

Total contributions from participating employers and members increased by approximately $129 million, from $1,113 million during fiscal year 2016 to approximately $1,242 million during fiscal year 2017. Total net investment and securities lending transaction income decreased by approximately $9 million, from approximately $37 million during fiscal year 2016 to approximately $28 million during fiscal year 2017. The System recognized a net depreciation in the fair value of investments of approximately $8 million during fiscal year 2017, compared with a net appreciation in the fair value of investments of approximately $900 thousand recognized in fiscal year 2016. Also, the System recognized an impairment loss on deposits with a governmental bank of approximately $21 million in fiscal year 2016 and $9 million in fiscal year 2017 (refer to note 6 to the financial statements).

Total deductions increased by approximately $369 million in fiscal year 2017, mainly as a result of the increase of approximately $378 million in other expenses and the decrease of approximately $8 million in benefits paid to participants. Benefits paid to participants amounted to approximately $1,525 million for fiscal year 2017 and approximately $1,533 million for fiscal year 2016. General and administrative expenses amounted to approximately $24 million for fiscal year 2017 and approximately $28 million for fiscal year 2016.

During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial liability. As of June 30, 2017, bonds payable amounted to approximately $3,166 million.

Other Post-employment Healthcare Benefits

Other post-employment healthcare benefits paid during fiscal year 2017 amounted to approximately $91.2 million, a decrease of approximately $2.8 million or 3% as compared to the $93.7 million paid during fiscal year 2016. Effective July 1, 2013, no benefits are provided to new retirees, as required by Act No. 3 of 2013.

Financial Analysis of the System

As of June 30, 2017 and 2016, the System held approximately $523 million and $597 million, respectively, in loans and interest receivable from plan members, which represents 55% and 46%, respectively, of the total investment portfolio, including loans. As of June 30, 2017, member loans and interest receivable consisted of $161 million in mortgage loans, $299 million in personal loans, $37 million in cultural trip loans, and $29 million in interest receivable, less $3 million in allowance for adjustments and losses in realization. As of June 30, 2016, member loans and interest receivable consisted of $170 million in mortgage loans, $351 million in personal loans, $45 million in cultural trip loans, and $34 million in interest receivable, less $3 million in allowance for adjustments and losses in realization. As of June 30, 2017, and 2016, the fair value of the System's investment in limited partnerships amounted to approximately $87 million and $47 million, respectively, which represented approximately 9% and 4% of the investment portfolio, as of June 30, 2017 and 2016, respectively.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in a short-term investment fund in order to earn interest. For the years ended June 30, 2017 and 2016, net income from the securities lending activity amounted to approximately $30,000 and $113,000, respectively.

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**
(A Component Unit of the Commonwealth of Puerto Rico)

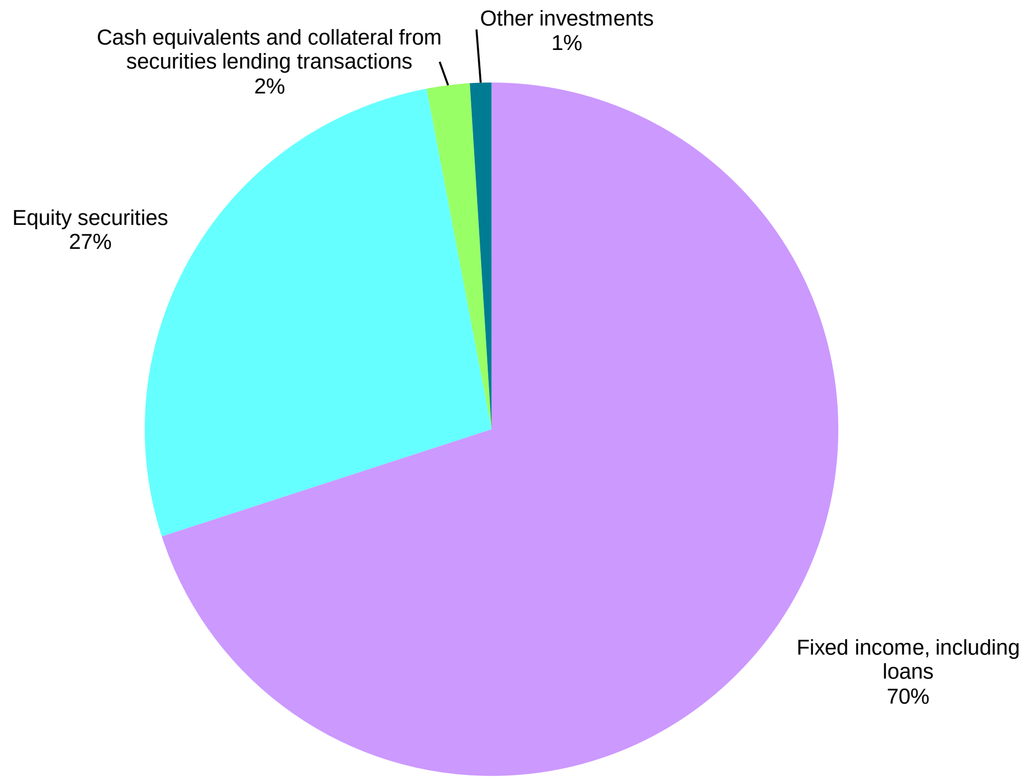
Management's Discussion and Analysis (Unaudited)

June 30, 2017

Investment Portfolio and Capital Markets Overview

The System's total investment assets, including member loans, collateral from securities lending transactions and cash equivalents (investment portfolio, including loans), as of June 30, 2017 totaled approximately $979 million. Member loans amounted to $523 million as of June 30, 2017.

As of June 30, 2017, the System's investment portfolio allocation, including member loans, was 70% in fixed-income investments, including loans receivable, 27% in equity securities, 2% in cash and short-term investments, and 1% in other investments as shown in the following chart:



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Economy and Capital Markets Overview

United States Equity Overview for the fiscal year 2017: As of June 30, 2017, the S&P 500 was near a record high, up almost 15% since the U.S. presidential election in November 2016. It was the 26th new high in calendar year 2017. The market growth during this period was led by technology and financial stocks. Most of the economic statistics in the U.S. remained strong and were improving globally. The 2017 fiscal year concluded with a quarter-point rate hike by the Federal Reserve as they remained committed to their plan to normalize monetary policy.

International Equity Overview for the Fiscal year 2017: International equity markets were the best performers for fiscal year 2017. The ACWI ex US index was up 20.5% in U.S. dollar terms and emerging markets were up almost 24% for the trailing 12 months. All global regions participated in this growth, led by over 26% growth among developed, small-capitalized companies and with very few countries up less than 10%. Unlike the United States, the developed market growth index lagged the developed market value index for the prior year.

United States Fixed Income Overview for the Fiscal Year 2017: U.S. Treasuries, TIPS and municipal positions were all slightly negative for fiscal year 2017. High yield was the strong positive outlier up over 12%. Investment grade managers performed well if they participated more heavily in the credit sectors as spreads tightened across all credit qualities. Many non-dollar debt positions benefited with dollar weakness creating outsized performance in a more globally diverse fixed income portfolio.

Total Fund Performance

The total fund (excluding GDB cash) earned 6.5% net of investment manager fees for fiscal year 2017. The results were disappointing as the market had performed strongly since the U.S. presidential election in November 2016, but the System was not able to fully participate. Less than one-third of the remaining assets were liquid. The majority of the assets, approximately $523 million, were in the current employee and retiree loan program. The asset allocation plan adopted in fiscal year 2016 was never fully implemented. With the change in the System administration, a decision was made to use the remaining liquid assets to fund benefit payments.

Over the fiscal year, the investment fund had net cash out flows of approximately $416 million. These outflows were largely used for benefit payments and represent 33% of the beginning year balance.

Though the System was not able to fully take advantage of the strong equity market returns during this fiscal year with the need to raise substantial cash, the fund did earn 6.5% resulting in approximately $69 million in additional gains to the portfolio. As the liquid assets are removed, the focus will be two-fold. One, how to best manage the illiquid investments to maximize the benefit to the plan and two, how the entity must continue to service its members.

Other Investments and Member Loans Transactions

As of June 30, 2017, the System held approximately $523 million in member loans which represented 55% of the total investment portfolio, including loans. Member loan balances as of June 30, 2017 were $74 million lower than a year ago.

At the end of the 2017 fiscal year, the System had some exposure to limited partnerships of private equity investments valued at approximately $87 million, which represented 9% of the System's total investment portfolio, including member loans.

Funding Status

The System was created by Act No. 447 of May 15, 1951 (Act No. 447) and, since its inception, lacked proper planning and funding. The levels of contributions were relatively low in comparison to the level of benefits. As more people joined the government labor force and then retired under the different benefit structures, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

During fiscal year 2007, the Board of Trustees approved the issuance of bonds in an effort to increase the funds available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability. In connection with the Bonds, the System pledge employers contributions, as defined in the ERS Bond Resolution, made after the date of issuance of the first series of Bonds to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to beneficiaries. Specifically, on January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Despite these efforts, the System's actuarial obligation continued its increasing trend as a result of the growth in the size and longevity of the pensioner population and the fact that incoming pensioners were entitled to even higher annuities based on their higher salaries.

Prior to fiscal year 2017, the Commonwealth enacted a series of laws to deal with the funding issues that the System experienced. For example, in 2011, the Commonwealth enacted Law 116 to increase the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, capped at an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, included: (1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (known as CRIM by its Spanish acronym) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth in the case of public corporations; (2) implementation of Act No. 70 establishing early retirement incentives; (3) revision of the Employee Personal Loan Policy by reducing personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and (4) the receipt of approximately $162.5 million in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym).

In 2013, the Commonwealth enacted Law 3 that reformed the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements of the system with a defined contribution system. Based on the statutory funding requirements prior to this reform, the annual benefit

payments and administrative expenses of the System were significantly larger than the member and employer contributions made to the System.

Act No. 3 2013 amended Act No. 447, Act No. 1 of 1990 (Act No. 1) and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) to be administered by the System. All regular employees hired for the first time on or after July 1, 2013, became part of the Contributory Hybrid Program. Also, Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits accrued under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan resulted in lower benefit payments.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Commonwealth central government agencies, public corporations and municipalities the procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go" (PayGo) system. With the start of the fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were eliminated. A monthly PayGo charge was implemented to cover the actual cost of pension payments and that is remitted by the aforementioned government entities to pay benefits to their respective retirees. The System helps determine and administer the payment amount per each current retiree that is charged to each Commonwealth central government agency, public corporation and municipality.

On August 23, 2017, the Governor signed into law Act 106-2017, which created the legal framework for the Commonwealth to guarantee payments to pensioners through the PayGo system. Among other things, Act 106-2017 also created a Defined Contribution Plan for current employees under which future benefits will not accumulate.

At June 30, 2017, the System's pension plan consisted of three different benefit structures, which were administrated according to the specifications in each applicable pension benefit law. For all plan members, employee contributions range from 8.275% to 10% of their salary, as specified by the employee. Under all structures, employers' contributions during the fiscal year ended June 30, 2017 were 15.275% of the employee salary. Based on the last actuarial valuation at June 30, 2017, the employers' net pension liability amounted to approximately $32,201 million, with a plan fiduciary net deficit position as a percentage of the total pension liability of negative 7.01%. The liability for postemployment healthcare benefits amounted to approximately $1,138 million as of June 30, 2017 and was fully unfunded.

Capital Assets

The total aggregate amount of the System's investment in capital assets (net of accumulated depreciation) was approximately $9.9 million and $9.7 million as of June 30, 2017 and June 30, 2016, respectively. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System conducts its operations.

Debt Administration

Long-term debt obligations include the System's senior funding bonds and amounted to approximately $3,166 million and $3,135 million as of June 30, 2017 and 2016, respectively. The System has issued three series of revenue bonds designated as "Senior Pension Funding Bonds", the proceeds of which were used mainly to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions, as defined in the ERS Bond Resolution, made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. These bonds are currently rated "C" by Moody's Investors Service and "CC" by Standard & Poor's Ratings Services. Refer to note 10 to the basic financial statements for further information regarding the System's long-term obligations. For the suspension of the monthly payments to the trustee of the System's bonds, refer to note 14 of the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, Avenida Jose de Diego, Parada 22 Centro Gubernamental Minillas, Edificio Torre Norte, Piso 11, San Juan, Puerto Rico, 00940.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2017

(In thousands)

		Pension	Post employment healthcare benefits	Total
Assets:				
Cash and cash equivalents:				
Deposits at commercial banks:				
Unrestricted	$	257,879	—	257,879
Restricted		202,295	—	202,295
Money market funds:				
Unrestricted		2,340	—	2,340
Restricted		13,279	—	13,279
U.S. Treasury bill – restricted		909	—	909
Total cash and cash equivalents		476,702	—	476,702
Receivables, net:				
Employers – net of allowance for uncollectible accounts of $1,029,739		36,172	—	36,172
Due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico		627	—	627
Investments sold		401	—	401
Other		17,259	—	17,259
Total receivables, net		54,459	—	54,459
Collateral from securities lending transactions		7,359	—	7,359
Investments:				
Bonds and notes		163,187	—	163,187
Nonexchange commingled trust funds		181,699	—	181,699
Investments in limited partnerships		87,069	—	87,069
Total investments		431,955	—	431,955
Member loans and interest receivable – net		523,443	—	523,443
Capital assets – net		9,902	—	9,902
Other assets		816	—	816
Total assets		1,504,636	—	1,504,636

(Continued)

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Fiduciary Net Position

June 30, 2017

(In thousands)

		Pension	Post employment healthcare benefits	Total
Liabilities:				
Accounts payable and accrued liabilities	$	279,366	—	279,366
Bond interest payable		14,076	—	14,076
Securities lending obligations		7,359	—	7,359
Due to Commonwealth of Puerto Rico		98,044	—	98,044
Escrow funds of mortgage loans and guarantee insurance reserve for member loans		11,018	—	11,018
Accrued Investment Expense		541	—	541
Bonds payable		3,166,472	—	3,166,472
Other liabilities		36,613	—	36,613
Total liabilities		3,613,489	—	3,613,489
Contingencies (note 13)		—	—	—
Unrestricted net deficit position	$	(2,108,853)	—	(2,108,853)

See accompanying notes to basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2017

(In thousands)

		Pension	Post employment healthcare benefits	Total
Additions:				
Contributions:				
Employer contributions:				
Basic benefits, net of provision for uncollectible contributions of $405,661	$	726,911	—	726,911
Special benefits		194,626	91,280	285,906
Member contributions		320,095	—	320,095
Total contributions		1,241,632	91,280	1,332,912
Investment income:				
Net depreciation in fair value of investments		(7,856)	—	(7,856)
Impairment loss on deposits with governmental bank (note 6)		(9,218)	—	(9,218)
Interest		46,800	—	46,800
Dividends		253	—	253
Less investment expense, other than from securities lending		(1,854)	—	(1,854)
Net income from investing, other than from securities lending		28,125	—	28,125
Securities lending income		30	—	30
Net investment income		28,155	—	28,155
Other income		56,626	—	56,626
Total additions		1,326,413	91,280	1,417,693
Deductions:				
Benefits paid to participants:				
Annuities		1,320,005	—	1,320,005
Special benefits		194,626	91,280	285,906
Death benefits		10,064	—	10,064
Refunds of contributions		35,229	—	35,229
Interest on bonds payable		198,084	—	198,084
General and administrative		24,358	—	24,358
Other expenses		387,015	—	387,015
Total deductions		2,169,381	91,280	2,260,661
Net decrease in net position		(842,968)	—	(842,968)
Net position (deficit):				
Beginning of year		(1,265,885)	—	(1,265,885)
End of year	$	(2,108,853)	—	(2,108,853)

See accompanying notes to basic financial statements.

(1) Organization

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Legislature) pursuant to Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to August 23, 2017, the System administered a cost-sharing, multi-employer, pension plan (the pension plan). The System also administers post-employment healthcare benefits provided by the Commonwealth of Puerto Rico (the Commonwealth) to retired plan members (the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution – ERS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment benefit plan.

The System is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The System, is a governmental retirement plan, and as such is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Income earned by the System is not subject to Federal and Puerto Rico taxes.

Under Act No. 447, until August 23, 2017, the System was governed by an 11-member board of trustees (the Board of Trustees), composed of (i) four ex-officio members (or their designees): the Secretary of Treasury of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), the Commissioner of Municipal Affairs, and the Director of the Office of Human Resources of the Commonwealth; (ii) three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom had to be members of the System and one member of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), each with at least ten years of credited service; (iii) two members who had to be pensioners of the System and JRS, respectively; (iv) the President of the Federation of Mayors; and (v) the President of the Association of Mayors. As of June 30, 2017, the System was governed by the Board of Trustees.

On August 23, 2017, Act 106-2017 dissolved the Board of Trustees and established a new Retirement Board of the Government of Puerto Rico (the Retirement Board), to govern all of the Commonwealth's Retirement Systems, including the System. The Retirement Board is comprised of 13 members, composed of (i) six ex-officio members (or their designees): the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), the Secretary of Treasury of the Commonwealth, the Director of the Office of Management and Budget, the Director of the Office for the Administration and Transformation of Human Resources of the Government of Puerto Rico, the President of the Federation of Mayors, and the President of the Association of Mayors; (ii) three Governor-appointed representatives of the teachers of the Department of Education, the public corporations, and the Judiciary Branch; and (iii) four additional Governor-appointed members as representatives of the public interest. As of the date of these financial statements, there are two vacancies in the Retirement Board. For additional information regarding Act 106-2017, refer to note 14 of the basic financial statements

Prior to August 23, 2017, the System and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), also a component unit of the Commonwealth, were both administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration). The ERS and JRS Administration allocated 97.93% of its general and administrative expenses to the System during the fiscal year ended June 30, 2017. The methodology used to determine the allocation is based on total employers' and participating employees' contributions to the System, divided by the aggregate total of employers' and participating employees' contributions to the System and JRS, combined.

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the System in the preparation of its financial statements:

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to governmental organizations per the Governmental Accounting Standards Board (GASB) pronouncements. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has legal requirement to provide the contributions. Benefits and refunds are recognized when legally due and payable.

(b) Use of Estimates

The preparation of the basic financial statements requires management to make significant estimates and assumptions relating to the reporting of assets and liabilities and in the disclosures of contingencies to prepare these financial statements in conformity with GAAP. The System's most significant estimates relate to the total pension liability, the allowance for uncollectible amounts of member loans and accounts receivable and the valuation of certain investments. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition and consist of money market funds, U.S. Treasury bills, and certificates of deposit in GDB (a component unit of the Commonwealth) and in commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders in the servicing of loans (escrow accounts), expired checks not claimed by the plan members restricted for repayments, and temporary amounts to be transferred to the Bank of New York Mellon (trustee) restricted for bond debt service requirements. Restricted money market funds consist of funds held by the trustee to maintain the debt service funds and the sinking funds for the repayment of the System's bonds payable.

(d) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The System has investments in limited partnerships and non-exchange commingled trust funds valued at approximately $87 million and $182 million, respectively, as of June 30, 2017. Fair values of investments in limited partnerships have been estimated in the absence of readily determinable fair values, based on information provided by the underlying fund managers. Non-exchange commingled trust funds are reported at their net asset value (NAV). The NAV includes the market value of the securities in the fund plus any receivables, payables, and accrued fund expenses.

Securities purchases and sales are recorded on a trade-date basis. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net appreciation (depreciation) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost of the investment sold, determined by the average cost method. Interest income is recorded as earned on an accrual basis. Dividend income is recorded on the ex-dividend date.

(e) Member Loans

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance less an allowance for uncollectible amounts. The maximum amount that was loaned to plan members for mortgage loans is $100,000 and $5,000 for personal, and cultural trip loans.

At June 30, 2017, the System serviced mortgage loans with an aggregate principal balance of approximately $161 million at June 30, 2017, related to certain mortgage loans sold to the Federal National Mortgage Association for a fee of 0.25%. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

(f) Guarantee Insurance Reserve for Member Loans

Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets include building, building improvements, and furniture and equipment. The System defines capital assets as assets with an initial individual cost of $500 or more at the date of acquisition and a useful life equal to or in excess of four years. Capital assets are recorded at historical cost, or their estimated historical cost, if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

(Continued)

Capital assets are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

(h) Termination Benefits

The System accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, the System, as an employer, should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

(i) Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective during the fiscal year ending June 30, 2017:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).* This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. This statement establishes new accounting and financial reporting requirements for OPEB plans. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The System is evaluating the impact of this new statement.
- GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No 67, No. 68 and No. 73*. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is

the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The System already adopted the requirements of this statement except for the amendments related to the selection of assumptions mentioned above for which the System is evaluating the impact of this new requirement.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The System is evaluating the impact of this new statement.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2019. The System is evaluating the impact of this new statement.

- GASB Statement No. 88, *Certain disclosures related to debt*, *including direct borrowings and direct placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018. The System is evaluating the impact of this new statement.

(3) Going Concern Uncertainty

As of June 30, 2017, the System was severely underfunded with a net pension liability of approximately $32,201 million and a fiduciary net deficit position of approximately $2,109 million. As a result of fiscal and economic challenges, on May 3, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) – at the request of the Governor – commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico (the Title III Court). By commencing a Title III case, the Commonwealth was able to ensure the delivery of essential services to the public and the payment of government payroll and essential suppliers.

On May 21, 2017, the Oversight Board – at the request of the Governor – similarly commenced a Title III case for the System by filing a petition for relief in the Title III Court. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III case.

As further described in note 14 to the basic financial statements, in July 2017, the System sold investments in the total aggregate amount of approximately $297 million and transferred approximately $190 million of the net proceeds to the Treasury Department as required under Joint Resolution 188.

Management's Conclusion on Going Concern Consideration

Based on the fiscal and financial difficulties of both the Commonwealth and the System discussed above, management believes there is substantial doubt about the ability of the System to continue as a going concern.

Management's Remediation Plan

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Commonwealth central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, a new PayGo system for the payment of pensions. Subsequently, on August 23, 2017, the Governor signed into law Act 106-2017, which established by law the PayGo system for the payment of accumulated pension benefits by the Commonwealth and reformed the System so that its active participants would deposit their individual contributions in a new Defined Contribution Plan, among other significant changes. For additional information on the PayGo system and Act 106-2017, refer to note 14 to the basic financial statements.

Act 106-2017 also suspended the System's loan program and seeks to reduce general and administrative expenses mostly through employee attrition due to normal retirement and reduction in professional services contracts.

(4) Plan Description

Pension Benefits

Before August 23, 2017, the System administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by the System. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

At July 1, 2016, membership of the System consisted of the following:

Retirees and beneficiaries currently receiving benefits	108,035
Current participating employees – defined benefit	53,832
Current participating employees – System 2000 and Act No. 3	64,825
Disabled members, receiving benefits	14,722
Total membership	241,414

The benefits provided to members of the System are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of the System. This summary details the provisions under Act No. 3.

Certain provisions are different for the three groups of members who entered the System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990. (contributory, defined benefit program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999. (contributory, defined benefit program)
- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013. (defined contribution program)

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Each member has a non-forfeitable right to the value of their account. Members have three options to invest their contributions. Investment income is credited to the member's account semi-annually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program were pooled and invested by the System.

This summary of the System's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. All eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable plan documents.

(a) Service Retirements

(1) *Eligibility for Act No. 447 Members* – Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 provides that Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

(b) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

(1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(c) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(d) Termination Benefits

(1) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

(2) Deferred Retirement

Eligibility: A Member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the Defined Contribution Hybrid Contribution Account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age is equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(e) Death Benefits

(1) Pre-Retirement Death Benefit

Eligibility: Any current nonretired member is eligible.

Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(2) High-Risk Death Benefit under Act No. 127 of 1958, as amended (Act No. 127)

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Law No. 105 of 1969, as amended by Law No. 158 of 2003 and Article 2-113 of Act 447 of 1951 as amended by Act 524 of 2004):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from

30% to 50% if the Coordination Plan is paid by the Commonwealth's General Fund for former government employees or by a public corporation or municipality for their former employees. As stated in Law 105 of 1969 as amended by Act 158 of 2003.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The System pays for the rest. As stated in Article 2-113 of Act 447 of 1951 as amended by Act 524 of 2004.

(4) Post-Retirement Death Benefit for Members who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the benefit is the applicable survivor benefit selected.

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(5) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(f) Disability Benefits

(1) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the Defined Contribution Hybrid Contribution Account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(2) High Risk Disability under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127 of 1958 (as amended).

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(3) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(g) Special Benefits

(1) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the System.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3 of 2013)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the System for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act 35 of 2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(3) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.

(h) Contributions

(1) Member Contributions (Article 5-105 of Law 447, as amended by Law No. 3 of 2013, amended by Law No. 106 of 2017 and amended by Law 71 of 2019)

Effective July 1, 2013 through June 30, 2017, contributions by members consisted of 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions were 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Effective July 1, 2015 members who selected the Coordination Plan, member contribution increased to 10% of compensation. Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation. However, in the case of members of the rank system of the Puerto Rico Police Bureau, the mandatory contribution is 2.3% of their compensation. In the case of those members of the rank system of the Puerto Rico Police Bureau which have less than 10 years to qualify for retirement as established by Act No. 447, the reduction in the percentage of contribution will apply voluntarily.

(2) Employer Contributions (Article 2-116 of Law 447, as Amended by Law No. 116 of 2011 and Act No. 3 of 2013, eliminated effective on July 1, 2017 by Act 106 of 2017)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions were 10.275% of compensation. For the next four fiscal years effective July 1, employer contributions were scheduled to increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation. Act 106 of 2017 eliminated the employer contributions to the System as of July 1, 2017.

(3) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3 of 2013, eliminated on July 1, 2017 by Act 106 of 2017)

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

The special benefits contribution requirement to the System is established by law and is not actuarially determined. The special benefits contributions of approximately $195 million in 2017 mainly represent contributions from the Commonwealth's General Fund, public corporations and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits. During fiscal year June 30, 2017, the System transferred to the Commonwealth's General Fund the amount of $56.7 million on a monthly basis to cover any deficiency in the payment of special benefits and pensions.

(4) Additional Uniform Contribution (Act No. 32, as Amended)

The Additional Uniform Contribution will be certified by the external actuary of the System each fiscal year from 2015-2016 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The Additional Uniform Contribution is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. Total Additional Uniform Contribution determined for fiscal year ended June 30, 2017 was $776 million. As further described in note 14(b), the Additional Uniform Contribution was eliminated by Act 106-2017.

(i) Early Retirement Programs

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 244, dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The System's Board of Trustees approved a payment plan for the debt balance due of the retirement program for 24 months starting in March 2014.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the Commonwealth's the General Fund and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the System. The Commonwealth's General Fund will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards. As of June 30, 2017, the System recorded a liability of approximately $15 million for its responsibility as an employer under Act No. 70.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act No. 211 applies to eligible employees of agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund, municipalities, component units that operate with their own resources (except those that have their own retirement system), Judiciary Branch, except judges, and the Commonwealth Employees Association. Act No. 211, among other provisions, established that pre-retirement benefits would be provided to eligible employees who started contributing to the System before April 1, 1990 with at least 20 years of service and would consist of biweekly benefits of 60% of the of each employee's salary as of December 31, 2015, as defined. Pursuant to Act No. 211, the employers will continue making the applicable employee and employer contributions to the Retirement Systems and the employer Social Security and Medicare contributions based on average employee salary, as defined, as of December 31, 2015. Individual Social Security and Medicare contribution would be deducted from the biweekly benefits to be paid to the participant. These payments would be made until the employee reaches the age of 61 years. Other benefits would include the payment of the participant's healthcare plan during the first two years of the program. Once the participant reaches 61 years of age, the participant would be eligible to receive payments from the System and would be entitled to a guaranteed minimum pension of 50% of their average salary (except police officers, which would be paid 60%), and related costs would be paid by the employer.

As described in note 14, Act 106-2017 repealed Act No. 211, while creating an incentives, opportunities and retraining program for public workers.

(j) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is an unfunded cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all full time employees of the Commonwealth's central government, certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB.

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2016, the membership consisted of the following:

Membership:	
Retired members	94,071
Disabled members	14,722
Total membership	108,793

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2017, OPEB contributions amounted to $91 million.

The funding of the OPEB benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees, and by certain public corporations with their own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year.

(5) Net Pension Liability

The components of the net pension liability as of June 30, 2017 were as follows (dollars in thousands):

Total pension liability	$	30,091,826
Plan's fiduciary net deficit		(2,108,853)
Net pension liability	$	32,200,679
Plan's fiduciary net deficit as a percentage of the total pension liability		(7.01)%

(a) Actuarial Methods and Assumptions

The census data collection date is at the beginning-of-the fiscal year. The liability results as of June 30, 2017 are based on projecting the System obligations determined as of the census data collection date of July 1, 2016 for one year, using roll-forward methods and assuming no liability gains or losses.

The actuarial valuation used the following actuarial assumptions:

Inflation	Not applicable
Municipal bond index	3.58%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:
Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:
Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

(b) Long-Term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was not applicable as of June 30, 2017. Net assets are negative as of June 30, 2017 and accordingly, it is not possible to determine a rate of return on net assets during the fiscal year. In addition, after June 30, 2017, due to the PayGo system by which the Commonwealth guarantees payment of pensions. System assets were no longer necessary to generate investment returns to pay pension benefits. The approximate actual rate of return on gross assets was 8.74% as of June 30, 2017.

Before June 30, 2017, the pension plan's policy for allocation of invested assets has been established and may be amended by the System's Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs. The following asset allocation policy as of June 30, 2017 was adopted by the System's Board of Trustees:

	Target allocation	Long-term expected rate of return
Asset class:		
Domestic equity	56 %	N/A
International equity	15	N/A
Fixed income	28	N/A
Cash	1	N/A
Total	100 %	

In prior years, the long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This year, the long-term expected rate of return assumption is no longer applicable.

(c) Discount Rate

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.58% as of June 30, 2017.

The June 30, 2017, actuarial valuation reflects a decrease of $5,498 million in the net pension liability, mainly related to changes in assumptions of $4,179 million, as a result of an increase in the discount rate as required by GASB Statement No. 67 from 2.85% in fiscal year 2016 to 3.58% in fiscal year 2017, and the effect of plan changes of approximately $2,017 million.

(d) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 3.58%, as well as what it would be if it were calculated using a discount rate of 1%-point lower (2.58%) or 1% point higher (4.58%) than the current rate (dollars in thousands):

		1% Decrease (2.58%)	Current discount rate (3.58%)	1% Increase (4.58%)
Net pension liability	$	36,599,444	32,200,679	28,666,953

(6) Cash and Cash Equivalents, Investments and Securities Lending Transactions

Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2017 consisted of the following (in thousands):

		Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits with GDB	$	—	30,027	30,027
Deposits with Puerto Rico commercial banks		460,174	454,587	—
Money market funds		15,619	N/A	N/A
U.S. Treasury bills		909	N/A	N/A
Total	$	476,702	484,614	30,027

Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the System may not be able to recover deposits or collateral securities that are in the possession of an outside party. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. Deposits with GDB and with non-Puerto Rico commercial banks and money market funds are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

Restricted cash and cash equivalent amounted to approximately $216 million as of June 30, 2017 and consisted of the following:

- Approximately $1.9 million of funds are restricted for the debt service of the bonds payable, and 100% of such funds were deposited at trustee in money market funds

- Approximately $214 million of funds are restricted for repayments of mortgage and personal loans administrated by the mortgage servicers and the System, for expired checks not claimed by the plan members, and other purposes, of which approximately $11 million of funds were deposited at trustee in money market accounts, approximately $126,000 of funds were deposited at GDB and approximately $202 million were deposited at Puerto Rico commercial banks.

Custodial Credit Loss on Deposits with GDB

Management determined based on the information available prior to the issuance of the System's financial statements for the fiscal year ended June 30, 2017 that a custodial credit loss existed as of June 30, 2017 for the deposits held at GDB.

GDB continues to face a critical economic situation as of June 30, 2017 and currently does not have sufficient liquid financial resources to meet obligations when they come due. The Commonwealth and its public entities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations. Because of the nonpayment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt considering the broader fiscal crisis faced by the Commonwealth, GDB is in default of its debt obligations since May 1, 2016.

Pursuant to enacted legislation in April 2016, the Governor of the Commonwealth imposed on GDB emergency operational restrictions and debt moratorium. These restrictions included the suspension of loan disbursements from GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligation of GDB, among other measures.

On April 28, 2017, the Oversight Board approved the liquidation proposal included in the GDB's fiscal plan that calls for an orderly winding down its operations over ten years.

On March 23, 2018, GDB ceased its operations and determined to wind down in an orderly fashion under Title VI of PROMESA.

Based on an evaluation of the availability and recoverability of such funds, a custodial credit loss on these deposits has been recorded on the System's financial statements as follows (expressed in thousands):

		Deposits held with GDB at June 30, 2017		
		Carrying value before impairment loss	Custodial credit loss	Carrying value
Type of deposit:				
Interest bearing accounts	$	30,027	30,027	—
Total	$	30,027	30,027	—

The realizable balance of the deposits held with the GDB as of June 30, 2017 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2017 year end.

Investments

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expenses, was 8.74%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurement

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – Inputs whose values are based on unadjusted quoted prices for identical instruments in active markets that the System has the ability to access.

Level 2 – Inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as practical expedient are not subject to level classification.

(Continued)

The table below shows the fair value leveling of the System's investments:

Investment type	Level 1	Level 2	Level 3	Total
Investments measured at fair value:				
U.S. government securities	$ 8,884	—	—	8,884
U.S. government sponsored agencies obligations	9,789	—	—	9,789
Mortgage and asset-backed securities	6,540	—	—	6,540
U.S. corporate bonds and notes	—	64,939	—	64,939
Non U.S. corporate bonds	—	14,811	—	14,811
COFINA bonds	—	58,224	—	58,224
Investments at fair value level	$ 25,213	137,974	—	163,187
Investments measured at NAV as a practical expedient:				
Non exchange commingled trust funds:				
U.S. Equity trust funds				120,498
Non U.S. Equity trust funds				61,201
Investments in limited partnerships				87,069
Total Investments				$ 431,955

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2017:

(a) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2017, securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, except for securities lent. Securities lent are not exposed to custodial credit risk. Cash collateral received from securities lending transactions invested in short-term investments is exposed to custodial credit risk.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A–" or better using either Moody's or Standard & Poor's credit ratings.

The credit quality ratings of bonds and notes and nonexchange commingled fixed income trust fund as of June 30, 2017, are as follows (in thousands):

Investment type		Rating (1) AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC-	Not rated	Total
Bonds and notes:										
U.S. government sponsored agencies obligations:										
Federal Home Loan Bank (FHLB)	$	—	2,937	—	—	—	—	—	—	2,937
Federal National Mortgage Association (FNMA)		—	4,249	—	—	—	—	—	—	4,249
Federal Home Loan Mortgage Corporation (FHLMC)		—	927	—	—	—	—	—	—	927
Federal Farm Credit Banks (FFCB)		—	1,676	—	—	—	—	—	—	1,676
Mortgage and asset-backed securities:										
FNMA		—	2,581	—	—	—	—	—	—	2,581
FHLMC		—	1,420	—	—	—	—	—	—	1,420
U.S. corporate bonds and notes		2,065	10,832	13,245	34,770	473	—	—	3,554	64,939
Non U.S. corporate bonds		—	502	4,094	6,444	857	—	—	2,914	14,811
COFINA bonds		—	—	—	—	—	—	58,224	—	58,224
Total	$	2,065	25,124	17,339	41,214	1,330	—	58,224	6,468	151,764

(1) Rating obtained from Standard and Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $11.4 million of the total System investments consist of U.S. government and Government National Mortgage Association (GNMA) mortgage-backed securities, which carry no risk, therefore, not included within the above table.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2017, there are no investments in any issuer that represent 5% or more of the System's total investments, except for its investment in COFINA Bonds.

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of approximately $163 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in bonds issued by the Puerto Rico Sales Tax Financing Corporation (known as COFINA by its Spanish acronym), which provide for a 7% accretion rate and maturity dates between 2043 and 2048. COFINA is a blended component unit of the Commonwealth. As required by Act No. 96 of June 16th, 2011, the System cannot voluntary dispose the COFINA Bonds unless such request has been approved by the GDB. The COFINA Bonds have a fair value of approximately $58.2 million as of June 30, 2017.

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade intermediate credit and core fixed-income securities.

The contractual maturity of investments as of June 30, 2017, is summarized below (in thousands). Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)				
Investment type	**Within one year**	**After one to five years**	**After five to ten years**	**After ten years**	**Total**
Bonds and notes:					
U.S. government securities:					
U.S. Treasury notes	$ 2,105	824	3,602	—	6,531
U.S. Treasury bonds	—	—	—	2,353	2,353
U.S. government sponsored agencies obligations:					
FHLBC	—	1,053	1,884	—	2,937
FNMA	—	—	4,249	—	4,249
FHLMC	—	927	—	—	927
FFCBC	—	1,676	—	—	1,676
Mortgage and asset-backed securities:					
GNMA	—	—	—	2,539	2,539
FNMA	—	—	—	2,581	2,581
FHLMC	—	—	—	1,420	1,420
U.S. corporate bonds and notes	9,854	31,014	23,993	78	64,939
Non U.S. corporate bonds	847	6,079	6,847	1,038	14,811
COFINA bonds	—	—	—	58,224	58,224
Total bonds and notes	$ 12,806	41,573	40,575	68,233	163,187

	Maturity (in years)				
Investment type	**Within one year**	**After one to five years**	**After five to ten years**	**After ten years**	**Total**
Nonexchange commingled equity trust funds and investments in limited partnerships:					
Nonexchange commingled equity trust funds:					
U.S. – SSgA Russell 3000 Fund					120,498
Non-U.S. – SSgA MSCI ACWI Ex USA Fund					61,201
Investments in limited partnerships					87,069
Total nonexchange commingled equity trust funds and investments in limited partnerships					268,768
Total investments					$ 431,955

(1) Nonexchange commingled fixed income trust fund was classified based on effective duration.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2017, the SSgA MSCI ACWI Ex USA Fund is subject to foreign currency risk.

As of June 30, 2017, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA Fund by country was as follows:

Country	SSgA MSCI ACWI EX USA Fund
Japan	16 %
United Kingdom	11
France	7
Canada	7
Germany	7
Switzerland	6
Australia	5
Hong Kong	5
China	4
Korea	4
Taiwan	3
Netherlands	3
Spain	2
India	2
Others	18
Total	100 %

(i) Nonexchange Commingled Trust Funds

As of June 30, 2017, the System owned shares in the SSgA Russell 3000 Index Non-Lending Fund (SSgA Russell 3000 Fund) and the SSgA MSCI ACWI Ex USA Non-Lending Fund (SSgA MSCI ACWI Ex USA Fund) as follows (in thousands):

Fund name	Shares	Value
SSgA Russell 3000 Fund	4,619	$ 120,498
SSgA MSCI ACWI Ex USA Fund	3,096	61,201
Total nonexchange commingled trust funds		$ 181,699

The investment objective of the Russell 3000 Fund is to approximate as closely as practicable, before expenses, the performance of the Russell 3000 Index over the long term. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions.

The investment objective of the SSgA MSCI ACWI Ex USA Fund is to approximate as closely as practicable, before expenses, the performance of the MSCI ACWI ex USA Index over the long term. Shares can be redeemed semi-monthly at NAV and have no redemption restrictions.

As of June 30, 2017, the investments underlying the SSgA Russell 3000 Fund and the SSgA MSCI ACWI Ex USA Fund, had the following sector allocations:

Sector	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Information technology	21 %	12 %
Financials	15	22
Healthcare	14	8
Consumer discretionary	12	11
Industrials	11	12
Consumer staples	8	9
Energy	5	8
Real Estate	4	3
Materials	3	8
Utilities	3	3
Telecommunication services	2	4
Unclassified	2	—
Total	100 %	100 %

(ii) *Investments in Limited Partnerships*

The fair value of investments in limited partnerships at June 30, 2017, amounted to approximately $87.0 million and is presented as private equity investments in the basic Statement of Fiduciary Net Position. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization.

In accordance with the partnership agreements, the System's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2017, the System does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

As of June 30, 2017, the date of commitment, total commitment, 2017 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of commitment	Total commitment	2017 Contributions	Contributions to date at cost	Estimated fair value
Grupo Guayacán, Inc.-					
Guayacán Fund of Funds II, LP	August 1999	$ 25,000	—	23,681	919
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	January 1997	5,000	—	4,645	2,162
Guayacán Private Equity Fund II, LP	April 2007	25,000	—	24,547	22,638
Venture Capital Fund, Inc.	November 1995	800	—	800	654
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP	December 2006	25,000	97	25,890	19,225
Chase Capital Partners Private:					
Equity Fund of Funds Corporate	July 2000	20,000	—	18,994	—
Courage Credit	2017	5,000	2,254	2,254	1,857
Medley Credit Opportunity	2017	15,000	12,953	12,953	12,530
MCOY Investments	2017	10,000	10,000	10,000	9,696
Phoenix	2017	10,000	10,000	10,000	9,641
MCLarty Bluhaus Capital Partner	2017	5,000	250	250	250
Terracap	2017	7,500	6,829	6,829	7,497
Total		$ 153,300	42,383	140,843	87,069

(iii) Securities Lending Transactions

The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the System (the securities lent). At June 30, 2017, the collateral received represented 103% of the fair value of the total securities lent.

The securities on loan for which collateral was received as of June 30, 2017, consisted of the following (in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bills	$	657
U.S. Treasury notes		892
U.S. government sponsored agencies notes		752
U.S. corporate bonds and notes		5,058
Total	$	7,359

The underlying collateral for these securities had a fair value of approximately $7.4 million as of June 30, 2017. The collateral received was invested in a money market fund sponsored by the custodian bank. As of June 30, 2017, the short-term investment fund consisted of securities purchased under agreements to resell.

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the securities lent (to the extent the collateral is inadequate to replace the securities lent) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

(7) Accounts Receivable from Employers

As of June 30, 2017, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$	1,865
Special laws		80,627
Employer and employee contributions		887,557
Interest on late payments		95,862
Total accounts receivable from employers		1,065,911
Less allowance for adjustments and losses in realization		(1,029,739)
Total accounts receivable from employers – net	$	36,172

Under Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interest is charged as established by the System.

As more fully described in note 3, the Commonwealth and many of its instrumentalities, public corporations and municipalities, which are the employers of the System, have been facing significant fiscal and economic challenges. Further, prior to the commencement of the Title III Cases, the rating downgrade and widening of credit spreads for the Commonwealth's public sector and public corporations' debt put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established payment dates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

As of June 30, 2017, the System recorded an allowance of approximately $1,030 million for adjustments and losses in realization of the salary-based employer contributions and Additional Uniform Contributions due from the Commonwealth, public corporations and municipalities for the fiscal years 2016 and 2017 because, as explained in note 3, their collectability is uncertain.

(8) Member Loans and Interest Receivable

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The latest maximum amount of loans to plan members for mortgage loans was $100,000 and $5,000 for personal and cultural trip loans. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016. During the years ended June 30, 2014 and 2013, personal loans with principal balances amounting to approximately $100 million and $88 million, respectively, were sold to two financial institutions. As per servicing agreements, the System is in charge of the servicing, administration and collection of the loans and outstanding principal balances at and after closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2017, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	298,879
Mortgage		161,495
Cultural trips		36,859
Total loans to plan members		497,233
Accrued interest receivable		29,085
Less allowance for adjustments and losses in realization		(2,875)
Total loans and interest receivable from plan members – net	$	523,443

(9) Other Assets

As of June 30, 2017, other assets mainly consist of repossessed and foreclosed properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss will be recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP, are not material. Management believes that the carrying value of these properties approximates fair value.

(10) Bonds Payable

Senior Pension Funding Bonds – On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the Fiscal Agent), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The Bonds are limited, nonrecourse obligations of the System, payable solely from and secured solely by a pledge of employer contributions, as defined in the ERS Bond Resolution, made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York (the Fiscal Agent). The Bonds are not payable from contributions made to the System by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the System after funding of required reserves, or from any other assets of the System. The System invested the proceeds of the Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

The following is a summary of changes in the bonds payable principle balance (in thousands):

	Maturity		Balance at June 30, 2016	Accretion	Balance at June 30, 2017
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2021–2058	$	1,619,072	4,740	1,623,812
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028–2058		1,220,285	26,371	1,246,656
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028–2043		301,678	241	301,919
Bond discounts			(6,133)	218	(5,915)
Total		$	3,134,902	31,570	3,166,472

As of June 30, 2017, the outstanding principal balance of the Bonds is as follows (in thousands):

Description		
Series A Bonds:		
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$	80,042
Term Bonds, maturing from 2021 through 2023, bearing interest at 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%		332,000
Total Series A Bonds outstanding		1,623,812

Description		
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	$	198,959
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		231,597
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,246,656
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,919
Term Bonds, maturing from 2024 through 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing from 2029 through 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing from 2039 through 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,919
Total bonds outstanding		3,172,387
Less bonds discount		(5,915)
Bonds payable – net	$	3,166,472

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2021	Term bonds (final maturity July 1, 2023)	$	50,000
July 1, 2022	Term bonds (final maturity July 1, 2023)		70,000
July 1, 2023	Term bonds (final maturity July 1, 2023)		80,000
	Subtotal		200,000
July 1, 2031	Term bonds (final maturity July 1, 2038)		3,000
July 1, 2032	Term bonds (final maturity July 1, 2038)		4,500
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,000
July 1, 2034	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2035	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2036	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2037	Term bonds (final maturity July 1, 2038)		133,500
July 1, 2038	Term bonds (final maturity July 1, 2038)		133,500
	Subtotal		679,000
Total		$	879,000

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if

accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months.

The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption period	Subject bonds		Amount
July 1, 2024	Term bonds (final maturity July 1, 2028)	$	18,700
July 1, 2025	Term bonds (final maturity July 1, 2028)		22,000
July 1, 2026	Term bonds (final maturity July 1, 2028)		29,150
July 1, 2027	Term bonds (final maturity July 1, 2028)		36,300
July 1, 2028	Term bonds (final maturity July 1, 2028)		3,850
	Subtotal		110,000
July 1, 2029	Term bonds (final maturity July 1, 2038)		100
July 1, 2030	Term bonds (final maturity July 1, 2038)		540
July 1, 2031	Term bonds (final maturity July 1, 2038)		100
July 1, 2032	Term bonds (final maturity July 1, 2038)		3,420
July 1, 2033	Term bonds (final maturity July 1, 2038)		4,320
July 1, 2034	Term bonds (final maturity July 1, 2038)		100
July 1, 2035	Term bonds (final maturity July 1, 2038)		11,940
July 1, 2036	Term bonds (final maturity July 1, 2038)		2,160
July 1, 2037	Term bonds (final maturity July 1, 2038)		7,920
July 1, 2038	Term bonds (final maturity July 1, 2038)		14,400
	Subtotal		45,000
July 1, 2039	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2040	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2041	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2042	Term bonds (final maturity July 1, 2043)		28,600
July 1, 2043	Term bonds (final maturity July 1, 2043)		28,600
			143,000
Total		$	298,000

Debt service requirements in future years on the System's bonds as of June 30, 2017 are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2018	$ —	166,519	166,519
2019	—	166,519	166,519
2020	—	166,519	166,519
2021	—	166,519	166,519
2022	—	166,519	166,519
2023–2027	200,000	751,232	951,232
2028–2032	1,036,595	702,754	1,739,349
2033–2037	452,745	695,887	1,148,632
2038–2042	1,210,220	407,702	1,617,922
2043–2047	180,550	256,577	437,127
2048–2052	—	247,568	247,568
2053–2057	362,800	212,062	574,862
2058–2062	398,200	14,401	412,601
	3,841,110	$ 4,120,778	7,961,888
Less:			
Unaccreted interest	(668,723)		
Unamortized discount	(5,915)		
Total	$ 3,166,472		

Pledge of Employer Contributions Pursuant to Security Agreement – The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions, as defined in the ERS Bond Resolution, made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the

bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

Starting in August 2016, and monthly thereafter, the Fiscal Agent under the Resolution of the System's bonds notified to the System that it failed to transfer the requisite employers' contributions on the last business day of each month. The Fiscal Agent is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including the System, or exercise any act that is stayed by PROMESA, the Puerto Rico Financial Emergency and Fiscal Responsibility Act of January 29, 2017 (Act No. 5 or the Financial Emergency Act), the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Act No. 21 or the Moratorium Act), or any Executive Orders related thereto. The Fiscal Agent, however, has filed a proof of claim against the Commonwealth and the System in their respective Title III cases seeking the total aggregate amount of the outstanding System bonds. As discussed further in note 13, the validity of the System's bonds is currently being challenged in the Title III Court.

Bonds Credit Rating Downgrades - On June 24, 2016, Fitch Ratings Inc. downgraded the System's Bonds from "CC" to "C" and placed them on "negative" outlook. Fitch cited "the breakdown of negotiations between the Commonwealth and major bondholders, the recent ruling by the U.S. Supreme Court on the Commonwealth's bankruptcy legislation, and the slow process of federal legislation in support of the Commonwealth as indicators that a debt restructuring, deferral or default has become inevitable. On April 5, 2017, Moody's Investors Service downgraded the System's Bonds to from "C" to "Ca" and placed them on "negative" outlook, citing "persistent pressures on Puerto Rico's economic base that indicate a diminishing perceived capacity to repay." Standard & Poor's Ratings Services currently rates the System's Bonds at "CC."

(11) Guarantee Insurance Reserve for Member Loans

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

(12) Other Postemployment Healthcare Benefits Funded Status and Funding Progress

The System's other postemployment healthcare benefits (OPEB) funded status as of June 30, 2017, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial value of plan assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of annual covered payroll
$ —	1,138,309	1,138,309	— %	$ 3,344,197	34.0 %

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Act No. 3 eliminated the medical insurance plan contribution of $100 per month for future retirees effective July 1, 2013.

The census data collection date is at the beginning-of-fiscal-year. The liability results as of June 30, 2017 are based on projecting the System obligations determined as of the census data collection date of July 1, 2016 for one year, using roll-forward methods and assuming no liability gains or losses. The amortization period for GASB Statement No. 45 has been reduced to the expected future lifetime of current in pay members.

The actuarial valuations used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Amortization method	18 years closed (beginning July 1, 2014), level dollar
Remaining amortization period	16 years
Asset valuation method	Not applicable
Actuarial assumptions:	
Investment rate of return	3.00%
Projected salary increases	Not applicable
Projected payroll growth	Not applicable
Inflation	Not applicable
Cost of living adjustment	Not applicable

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of OPEB for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

The OPEB mortality rate assumptions are the same as that for pension benefits. For additional information refer to note 5.

(13) Contingencies

A. Litigation Filed by Creditors Against the System Before Commencement of the Title III Case

Administración de los Sistemas de Retiro de los Empleados del Gobierno y la Judicatura de Puerto Rico, et. al v. UBS Fin. Servs. Inc. of Puerto Rico, et al., Civ. No. KAC-2011-1067 (803) (P.R. Ct. of First Instance Sept. 29, 2011)

On September 29, 2011, two System beneficiaries commenced a derivative suit in the Commonwealth of Puerto Rico Court of First Instance, San Juan Part (the Commonwealth Court), alleging breach of fiduciary duties and breach of contract against the underwriters in the issuance and underwriting of $3 billion of the System Bonds in 2008 (the UBS Action). On December 7, 2016, the Commonwealth Court allowed the System to intervene and ordered the plaintiffs, which now include the System and seven individual plaintiffs (collectively, the Plaintiffs), to file a third amended complaint against the underwriters, including UBS Financial Services Inc. of Puerto Rico (UBS), and related entities (collectively, the UBS Defendants). UBS had served as the lead underwriter of the 2008 System Bonds.

Among other things, Plaintiffs allege that by participating as the lead underwriter of the 2008 System Bonds, UBS violated its contractual, non-contractual and fiduciary obligations to the System. The Plaintiffs seek a ruling that UBS is liable to the System for over $800 million for underwriting the 2008 System Bonds.

On March 6, 2019, Plaintiffs filed the Fourth Amended Complaint against the UBS Defendants, which was accepted by the Commonwealth Court on April 15, 2019. On April 29, 2019, UBS filed its answer and an informative motion regarding its intent to file a counterclaim if the System's Title III automatic stay were to be lifted. The proposed counterclaim attached to the informative motion alleges breach of contract and indemnification arising out of the System's issuance of the 2008 System Bonds.

On June 25, 2019, the Oversight Board filed a motion to stay certain contested matters pending confirmation of a proposed plan of adjustment for the Commonwealth. On July 24, 2019, the Title III Court entered an order staying until November 30, 2019, various adversary proceedings and claims objections before it with overlapping issues, including those involving the validity of the System Bond issuances. UBS contends that the UBS Action in the Commonwealth Court should be stayed pending the Title III Court's resolution of alleged common legal issues.

On October 8, 2019, UBS filed a motion for relief from the automatic stay in order to assert counterclaims in the Commonwealth Court for breach of contract and indemnification against the System in the UBS Action. UBS asserts that the System represented in the 2008 System Bond Offering Statements that it was issuing the 2008 System Bonds in accordance with the authority provided under the Retirement Act, and that the 2008 System Bonds would be legally binding special obligations of the System. UBS also argues that the System represented in the purchase contracts entered into with UBS that the System had full right, power and legal authority to issue the bonds, and it was not in violation of

any law On December 11, 2019, the Title III Court held a hearing on UBS's stay relief motion. On December 16, 2019, the Title III Court granted UBS limited relief from the stay solely to allow UBS to present its proposed counterclaims in the Commonwealth Court. On February 4, 2020, UBS submitted its counterclaims in the Commonwealth Court. On March 9, 2020, the Oversight Board filed its objections to the counterclaims. On March 30, 2020, UBS renewed its stay relief motion, arguing that the Oversight Board's objection to the counterclaims violated the December limited lift-stay order and the Commonwealth Court should now be free to hear the Oversight Board's objections. On April 22, 2020, the Title III Court denied the motion.

UBS has also filed two proofs of claim against the System related to the UBS Action, as well as two proofs of claim related to *Casasnovas Balado v. UBS Fin. Servs., Inc.*, No. K AC-2014-0072 (905) (P.R. Ct. of First Instance Jan. 29, 2016), an action filed by a group of individual plaintiffs arising from the System Bond issuances.

B. Litigation Filed by Creditors Against the System After Commencement of the Title III Case

Employees Ret. Sys. of the Gov't of the Commonwealth of Puerto Rico, et al. v. Altair Global Credit Opportunities Fund (A), LLC, et al., Adv. Pro. No. 17-00213 (D.P.R. July 21, 2017)

On July 21, 2017, the Oversight Board, as representative of the System in its Title III case, commenced an adversary proceeding challenging the System bondholders' security interests in various system assets through a declaratory relief action (the System Declaratory Relief Action). Through the System Declaratory Relief Action, the Oversight Board, as representative of the System in the Title III case, sought declaratory relief challenging the validity, priority, extent, and enforceability of the prepetition and postpetition liens and security interests asserted by defendants with respect to bonds issued by the System. The complaint contends that the System bondholders' alleged liens and security interests are not perfected because the required UCC financing statements and subsequent amendments were defective, and therefore the liens could be avoided in the Title III case. The System Declaratory Relief Action also challenged, among other things, the System bondholders' alleged security interest in postpetition employer contributions.

On August 17, 2018, the Title III Court granted partial summary judgment in favor of the System. The Title III Court held, among other things, that the System bondholders' liens are not perfected and their security interests are avoidable under Bankruptcy Code section 544. On September 5, 2018, the Title III Court entered an order dismissing the remaining counts and counterclaims. This decision was appealed to the United States Court of Appeals for the First Circuit.

On January 30, 2019, the First Circuit (i) affirmed the Title III Court's holding that the 2018 financing statements related to the System's bonds did not perfect the System bondholders' security interest in pledged property, (ii) affirmed the dismissal of the System bondholders' claim regarding a January 2017 stipulation, and (iii) reversed the Title III Court by finding that the System bondholders met the requirement for perfection beginning on December 17, 2015. In addition, the First Circuit remanded certain counterclaims to the Title III Court for further consideration. On April 30, 2019, the Oversight Board, on behalf of the System, filed a petition for a *writ of certiorari* with the United States Supreme Court, seeking to reverse the First Circuit's decision. The petition was denied on October 7, 2019.

On remand, the System requested that the Title III Court (i) determine the undecided issue of whether the System bondholders' security interests attach to revenues received by the System after commencement of its Title III case (the Post-Petition Revenue Issue) and (ii) grant it leave to file an amended adversary complaint to raise issues concerning the nature or extent of the System bondholders' security interests. On May 6, 2019, the Title III Court agreed to determine the Post-Petition Revenue Issue, but denied the System's request for leave to amend its complaint. On June 27, 2019, the Title III Court granted summary judgment in favor of the System on the Post-Petition Revenue Issue, holding that Bankruptcy Code section 552 prevents the System bondholders' security interests from attaching to revenues received by the System post-petition, and finding that employers' contributions are not "special revenues" within the meaning of Bankruptcy Code section 902. On July 18, 2019, the System's bondholders appealed the Title III Court's decision to the United States Court of Appeals for the First Circuit. On January 30, 2020, the First Circuit issued an opinion affirming the Title III Court's decision. On March 3, 2020, the First Circuit denied the System bondholders petition for rehearing *en banc*.

Andalusian Global Designated Activity Co., et al. v. Commonwealth of Puerto Rico, et al., Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R. July 27, 2017)

On July 27, 2017, a group of System bondholders commenced adversary proceedings against the Commonwealth and the System in the cases initially captioned as *Altair Global Credit Opp. Fund (A), LLC, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R. July 27, 2017) (collectively, the PayGo Litigation), seeking a declaration that Joint Resolution 188 and Act 106-2017 (collectively, the PayGo Statute)are void *ab initio* because they violate the Title III automatic stay and the Contracts Clause and Takings Clause of the United States Constitution.

On November 17, 2017, the Oversight Board, as representative of the System in its Title III case and joined by FAFAA and the Retiree Committee, filed a motion to dismiss the PayGo Litigation. On February 2, 2018, the Title III Court issued an order informing the parties that the motion to dismiss would be taken under submission. On September 9, 2018, the Title III Court stayed the case pending the United States Court of Appeals for the First Circuit's decision on the summary judgment appeal in the System Declaratory Relief Action, which decision was rendered on January 30, 2019 (as discussed above). In light of the stay, on September 27, 2018, the Title III Court terminated the motion to dismiss without prejudice to its restoration on request following termination of the stay. No parties have moved to lift the stay.

On March 1, 2019, the Title III Court dismissed this case without prejudice as to Altair Global Credit Opportunities Fund (A), LLC and Nokota Capital Master Fund, L.P. As a result, the case was re-captioned *Andalusian Global Designated Activity Co. et al v. Commonwealth of Puerto Rico, et al.*, Adv. Pro. Nos. 17-00219-LTS, 17-00220-LTS (D.P.R.). On March 5, 2019, the Title III Court entered an order allowing certain System Bondholders – Crown Managed Accounts (for and on behalf of Crown/PW SP), LMA SPC (for and on behalf of Map 98 Segregated Portfolio), Oceana Master Fund Ltd., Pentwater Merger Arbitrage Master Fund Ltd., and PWCM Master Fund Ltd. – to intervene in the adversary proceeding. On October 25, 2019, these System Bondholders filed a motion to inform filing of a response to certain arguments concerning the validity of bonds issued by the System in the omnibus claims objections of the Creditors' Committee and the Retiree Committee, as well as in the motion to dismiss. As of the date of these financial statements, there has been no further docket activity.

C. Key Contested Matters in the System's Title III Case

Appointments Clause Litigation, Case No. 17-3566-LTS (D.P.R. Aug. 7, 2017)

On August 7, 2017, a group of GO bondholders led by Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, and Lex Claims, LLC (collectively, Aurelius) filed a motion to dismiss the Title III petitions. In the motion, Aurelius argued that the appointment of the Oversight Board members violated the "Appointments Clause" of the United States Constitution, which requires that "principal officers" of the United States be appointed by the President and confirmed by the Senate. The Title III Court denied Aurelius' motion to dismiss, and Aurelius appealed to the United States Court of Appeals for the First Circuit. On February 15, 2019, the First Circuit reversed the Title III Court, holding that the Oversight Board members' appointment process violated the Appointments Clause. The First Circuit stayed its ruling for 90 days to allow the President and Senate to appoint the members of the Oversight Board in accordance with the United States Constitution. It also expressly validated all of the Oversight Board's past actions, including any actions taken by the Oversight Board during the 90-day stay period.

On April 23, 2019, the Oversight Board appealed the First Circuit's decision to the United States Supreme Court by filing a petition for a writ of certiorari. On April 24, 2019, the Oversight Board filed a motion in the First Circuit requesting an extension of the 90-day stay of its February 15 decision until the Supreme Court's final disposition of the case. On May 6, 2019, the First Circuit granted in part the Oversight Board's extension motion by extending the stay of its February 15 decision until July 15, 2019, but denied the request to extend the stay indefinitely until the Supreme Court's final disposition of the case.

On May 30, 2019, Aurelius filed a cross petition for a writ of certiorari in the United States Supreme Court to challenge the First Circuit's validation of the Oversight Board's past actions under the de facto officer doctrine. On June 6, 2019, the Solicitor General of the United States and the Creditors' Committee each filed separate petitions for writs of certiorari in the United States Supreme Court to address whether the members of the Oversight Board are "Officers of the United States" within the meaning of the Appointments Clause. On June 14, 2019, Unión de Trabajadores de la Industria Eléctrica y Riefo (UTIER) – the plaintiff in a related adversary proceeding under Case Nos. 17-00228 –

LTS – filed its own separate petition for a writ of certiorari in the United States Supreme Court to challenge the First Circuit's application of the de facto officer doctrine.

On June 18, 2019, the President of the United States re-nominated all seven original Oversight Board members to complete the remainder of their terms, and these nominations are currently pending before the United States Senate.

On June 20, 2019, the United States Supreme Court granted the Oversight Board, Aurelius, Solicitor General, Creditors' Committee, and UTIER petitions for writs of certiorari and stayed the First Circuit decision pending its final determination. Oral argument on the appeal was heard before the United States Supreme Court on October 15, 2019. As of the date of these financial statements, the Supreme Court has not yet entered its decision on the appeal.

Motion of Certain Secured Creditors of the System for Relief from the Automatic Stay, Case No. 17-3566-LTS (D.P.R. July 3, 2018)

On July 3, 2018, a group of System bondholders (including Altair Global, Andalusian Global, Glendon Opportunities Fund, Mason Capital, Nokota Capital, Oaktree, Ocher Rose, SV Credit and a number of Puerto Rico-based mutual funds) filed a motion (the Stay Relief Motion) in the System's Title III case arguing that the Prepetition Segregated Account would run out of funds in August 2018, depriving bondholders of adequate protection in the form of monthly interest payments and therefore leaving movants' constitutionally-protected property interests unprotected. Movants asserted that relief from the Title III stay was necessary in order to maintain the status quo pending the Title III Court's resolution of the cross-motions for summary judgment in the System Declaratory Relief Action (discussed above). In the alternative, movants requested adequate protection of their liens on property of the System. On August 21, 2018, the Title III Court denied the Stay Relief Motion, and on August 29, 2018, the System bondholders filed an appeal to the United States Court of Appeals for the First Circuit.

On February 21, 2019, movants renewed their Stay Relief Motion following the First Circuit's January 30, 2019 reversal, in part, of the Title III Court's August 17, 2018 order in the System Declaratory Relief Action. In light of the Title III Court's June 27, 2019 decision in the System Declaratory Relief Action, the Title III Court terminated the renewed Stay Relief Motion without prejudice on July 8, 2019.

Omnibus Objections to System Bondholder Claims, Case No. 17-3566-LTS

On March 12, 2019, the Creditors' Committee filed an omnibus objection to all claims asserted against the System based on the approximately $3.1 billion of outstanding bonds issued by the System in 2008 (the Creditors' Committee System Bond Claims Objection). The Creditors' Committee System Bond Claims Objection argues that the System was only authorized to issue a "direct placement of debts," which the Creditors' Committee claims means a "private placement, not a public offering." Because the System Bonds were issued in a public offering, the Creditors' Committee asserts that the System Bonds were *ultra vires* and are thus "null and void." As a result, the Creditors' Committee seeks an order disallowing all System bond claims in their entirety. Also on March 12, 2019, the Creditors'

Committee filed a procedures motion related to the adjudication of the Creditors' Committee System Bond Claims Objection.

On April 23, 2019, the Retiree Committee filed an omnibus objection (the Retiree Committee System Bond Claims Objection) to all System bondholder claims asserted against both the System and the Commonwealth on the grounds that the System Bonds were issued *ultra vires* and that the System bondholders have no enforceable claim with respect to the System Bonds.

On July 24, 2019, the Title III Court entered an order (the July 24 Stay Order) staying the Creditors' Committee System Bond Claims Objection and Retiree Committee System Bond Claims Objection (together, the "System Bond Claims Objections).

On October 18, 2019, the parties to the System Bond Claims Objections jointly filed a motion and stipulated order seeking to modify the July 24, Stay Oder by allowing for the *ultra vires* issues and lien-scope issues raised in the objections to proceed. On October 24, 2019, the Title III Court has not yet entered the stipulated order granted the motion and established a discovery and briefing schedule related to the ultra vires and lien-scope issues through May 2020. On October 28, 2019, the Title III Court entered an order requiring a mediation report and/or scheduling order as to the remaining stayed matters by November 27, 2019 and extended the stay through December 31, 2019 as to all other matters not related to the ultra vires and lien-scope issues. On November 27, 2019, the court – appointed mediation team filed an interim status report, which provided recommended scheduling and sequencing of certain key litigation issues, including (i) the validity of certain challenged series of GO and PBA bonds; (ii) the secured or unsecured status of claims on GO and PBA bonds; and (iii) the rights, as against the Commonwealth, of holders of revenue bonds and other debt issued by certain Puerto Rico instrumentalities. Under the proposed scheduling order contained in the interim status report, the mediation team has proposed initial briefing on these issues to commence in February 2020 with hearings scheduled on April 30, 2020 and in June 2020. On December 27, 2019, the Title III Court entered an amended order extending the stay through March 11, 2020. On February 10, 2020, the mediation team filed an amended report, which the Title III Court considered at a hearing held on March 4, 2020. On March 10, 2020, the Title III Court entered a final order on the stay period, authorizing certain lift stay motions and revenue bond complaints to proceed but otherwise kept the stay in place for proceedings that do not involve ultra vires and/or lien-scope issues pending the Title III Court's decision on confirmation of the Amended Plan (defined below).

On January 6, 2020, the Oversight Board and Creditors' Committee filed several additional objections to the proofs of claim filed by the System Fiscal Agent and System bondholders. The Oversight Board filed an objection to the System Fiscal Agent's proof of claim, which asserts a claim for approximately $3.8 billion in principal, $9.2 million in accrued but unpaid interest, and other fees and expenses. Referencing the System Bond Claims Objections, the Oversight Board argues that the System Fiscal Agent's claim should be disallowed because the bonds were issued ultra vires, but even if the issuance was not ultra vires the Fiscal Agent is undersecured and is only entitled to assets in which the Fiscal Agent has a security interest and can be traced (if any). The Oversight Board also filed objections to the System bondholders' proofs of claim against the System, similarly arguing that the bondholders' claims should be disallowed as duplicative of the Fiscal Agent's claim. In addition, the Creditors'

Committee filed an objection to System bondholder claims, reiterating that it seeks disallowance of the bondholders' claims on ultra vires grounds and, alternatively, the System bondholders' asserted secured claims against the System's property are limited only to employer contributions held by the System on its Title III case petition date that are identifiable from other System assets, which System bondholders will not be able to show.

System Clawback Litigation, Adv. Pro. Nos. 19-355, 19-356, 19-357, 19-358, 19-359, 19-360, and 19-361-LTS (D.P.R. May 19, 2019)

On May 19, 2019, the Creditors' Committee and the Oversight Board, acting through its Special Claims Committee, commenced seven adversary proceedings (collectively, the System Clawback Litigation) against approximately 230 defendants that owned or currently own Bonds. The plaintiffs seek declaratory relief relating to the Bonds and recovery of certain payments of principal and interest on the Bonds. On May 21, 2019, the plaintiffs filed a motion requesting that the Title III Court enter an order (i) extending the period for serving domestic defendants in the Avoidance Actions to November 18, 2019, and (ii) otherwise staying the Avoidance Actions pending a joint request by both plaintiffs to resume a particular proceeding or further order of the Title III Court.

On July 24, 2019, the Title III Court entered an order staying the System Clawback Litigation through November 30, 2019 and required mandatory mediation of the issues during the stay period.

On October 18, 2019, the parties to the System Clawback Litigation jointly filed a motion and stipulated order seeking to modify the July 24, 2019 stay order Stay Order by allowing for the ultra vires issues related to the ERS Bonds System bonds to proceed. The On October 24, 2019, the Title III Court has not yet entered the stipulated order.granted the motion to modify the July 24 Stay Order and established a discovery and briefing schedule related to the ultra vires issues through May 2020. On November 1, 2019, defendant bond holders commenced discovery against various parties and non-parties, including the System, related to the ultra vires issues. As of the date hereof, the discovery process is ongoing.

On October 28, 2019, the Title III Court entered an order requiring a mediation report and/or scheduling order as to the remaining stayed matters by November 27, 2019 and extended the stay on non-ultra vires matters through December 31, 2019. On December 27, 2019, the Title III Court entered an amended order extending the stay on non-ultra vires matters through March 11, 2020. On March 10, 2020, the Title III Court entered a final order on the stay period, authorizing certain lift stay motions and revenue bond complaints to proceed but otherwise kept the stay in place for proceedings that do not involve ultra vires and/or lien-scope issues pending the Title III Court's decision on confirmation of the Amended Plan (defined below).

Lien-Scope Adversary Proceedings, Adv. Pro. Nos. 19-00366-LTS (D.P.R.) and 19-00367-LTS (D.P.R.).

On May 20, 2019, the System and the Creditors' Committee commenced separate adversary proceedings (collectively, the "Lien-Scope Actions") against the Fiscal Agent and certain beneficial

owners of the Bonds, alleging that the defendants do not hold valid and enforceable security interests in any of the System's remaining assets or the proceeds thereof (except certain accounts receivable).

On July 24, 2019, the Title III Court entered an order staying Lien-Scope Actions through November 30, 2019 and required mandatory mediation of the issues during the stay period.

On October 18, 2019, the parties to the Lien-Scope Actions jointly filed a motion and stipulated order seeking to modify the July 24, 2019 stay order Stay Order by allowing for issues regarding the scope of the System bondholders' liens the lien-scope issues raised in the complaints to proceed.

On October 24, 2019, the Title III Court has not yet entered the stipulated order.granted the motion and established a discovery and briefing schedule related to the lien-scope issues through May 2020. On November 1, 2019, defendant bondholders commenced discovery against various parties and non-parties, including the System. As of the date hereof, the discovery process is ongoing.

On October 28, 2019, the Title III Court entered an order requiring a mediation report and/or scheduling order as to the remaining stayed matters by November 27, 2019 and extended the stay through December 31, 2019 as to all other matters not related to the lien-scope issues. On November 27, 2019, the court-appointed mediation team filed an interim status report, which provided recommended scheduling and sequencing of certain key litigation issues, including (i) the validity of certain challenged series of GO and PBA bonds; (ii) the secured or unsecured status of claims on GO and PBA bonds; and (iii) the rights, as against the Commonwealth, of holders of revenue bonds and other debt issued by certain Puerto Rico instrumentalities. Under the proposed scheduling order contained in the interim status report, the mediation team has proposed initial briefing on these issues to commence in February 2020 with hearings scheduled on April 30, 2020 and in June 2020. On December 27, 2019, the Title III Court entered an amended order extending the stay through March 11, 2020. On February 10, 2020, the mediation team filed an amended report and recommendation and parties filed their responses to the amended report on February 21, 2020. On March 10, 2020, the Title III Court entered a final order on the stay period, authorizing certain lift stay motions and revenue bond complaints to proceed but otherwise kept the stay in place for proceedings that do not involve ultra vires and/or lien-scope issues pending the Title III Court's decision on confirmation of the Amended Plan (refer to note 14 for details).

The Fin. Oversight & Mgmt. Bd. for Puerto Rico v. Vásquez, Adv. Pro. No. 19-00393 (D.P.R.) (Jul. 3, 2019)

On July 3, 2019, the Oversight Board filed a complaint against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 29-2019, which eliminated the obligation of municipalities to make PayGo payments to the Commonwealth, and various joint resolutions because (i) Act 29 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c); (iii) Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and (iv) the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

On July 15, 2019, the Governor and FAFAA moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety. On September 10, 2019, the Governor and FAFAA answered the complaint. On December 13, 2019, the Oversight Board filed a motion for summary judgment. On February 5, 2020, the Governor and FAFAA filed their opposition to the Oversight Board's summary judgment motion. On March 5, 2020, the Title III Court heard oral argument on the summary judgment motion. As of the date hereof, the Title III Court has not yet made a final determination on the merits or issued its decision.

ERS Bondholders' Motion to Appoint Trustee, Case No. 17-03566-LTS (D.P.R. Nov. 19, 2019)

On November 19, 2019, a certain a group of System Bondholders (including Andalusian Global, Crown Managed Accounts, Glendon Opportunities, LMA SPC, Mason Capital, Oaktree, Oceana, and Pentwater) filed a motion (the Trustee Motion) in the System's Title III case arguing that the Court should appoint a trustee pursuant to Bankruptcy Code section 926 to pursue avoidance claims against the Commonwealth on behalf of the System. Movants specifically sought to have a trustee appointed to avoid alleged transfers made by the System to the Commonwealth pursuant to pension reform legislation enacted by the Commonwealth government. Movants asserted that the Oversight Board unjustifiably refused to pursue these avoidance claims and that the Oversight Board had a conflict of interest because it represents both the Commonwealth and the System. On January 7, 2020, the Title III Court denied the Trustee Motion, and on January 10, 2020, the System Bondholders filed an appeal to the United States Court of Appeals for the First Circuit. On March 19, 2020, the First Circuit issued an opinion affirming the Title III Court's order denying the Trustee Motion

In addition to the foregoing matters, the System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a material effect on the financial status of the System.

(14) Subsequent Events

Subsequent events were evaluated through June 29, 2020, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2017 financial statements. The subsequent events disclosed below are principally those related to debt activities, including fiscal events and related legislation, both local and federal, that management believes are of public interest for disclosure.

A. Sale of System Investments

On June 23, 2017, the Legislative Assembly approved certain other assignments for fiscal year 2018 under Joint Resolution 188, which among other things, ordered the System, JRS, and TRS to liquidate their assets and pass the net proceeds to the Treasury Department. In July 20, 2017, the System sold investments in the total aggregate amount of approximately $297 million and transferred approximately $190 million of the net proceeds to the Treasury Department as required under Joint Resolution 188.

B. PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act 106-2017, which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework for the Commonwealth to guarantee benefit payments to pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to the System's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the System's board of trustees was eliminated and a new Retirement Board was created. The Retirement Board is currently responsible for governing both the System, JRS and TRS.

Act 106-2017 terminated the previously existing pension programs for the System participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contribution program. The System's active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of the System benefits may be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

On May 17, 2019, the Legislature passed Act No. 29 of 2019 (Act 29-2019), which addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligation to make PayGo payments to the Commonwealth under Act 106-2017. The Oversight Board has challenged the implementation and enforcement of Act 29-2019, as discussed in note 13 to the basic financial statements.

On January 30, 2020, the United States Court of Appeals for the First Circuit entered an opinion in the System Declaratory Relief Action upholding the Title III Court's determination that Bankruptcy Code section 552 prevents System bondholders' security interests from attaching to post-petition revenues

and finding that employers' contributions are not "special revenues" within the meaning of Bankruptcy Code section 902. As a result, the First Circuit has determined that System bondholders do not have a security interest in employer contributions received after the System's petition date.

For additional information regarding litigation related to Act 106-2017 and the PayGo system, refer to note 13 to the basic financial statements.

C. Debt Investigation Report

On August 2, 2017, the Oversight Board announced its intention, under its authority under PROMESA, to conduct an investigation to review the financial crisis and its contributors, and examine Puerto Rico's debt and its issuance, including disclosure and selling practices. To that end, the Oversight Board named a special investigation committee (the Special Investigation Committee), and conducted a competitive process to identify and select an independent firm to conduct the investigation. On September 13, 2017, the Oversight Board announced that the Special Investigation Committee retained an independent investigator to carry out a review of the Commonwealth's debt and its connection to the current financial crisis. The Oversight Board published the independent investigator's final report on August 20, 2018 (the Debt Investigation Report). The Debt Investigation Report provides an analysis of the historical and more recent macroeconomic and political factors contributing directly and indirectly to the Commonwealth's fiscal and economic crisis, the Commonwealth's municipal bond issuance process, and legislative efforts to restructure the debt, as well as the Oversight Board's investigative findings, policy recommendations, and identification of potential claims and matters for regulatory attention.

The Debt Investigation Report presented findings and recommendations on the following areas:

- GDB
- Puerto Rico Public Utilities (PREPA and PRASA)
- COFINA
- The System
- Puerto Rico's Budgeting, External Reporting, and Accounting Functions
- Calculation of the Constitutional Debt Limit
- Credit Rating Agencies (CRAs)
- Selling Practices for Puerto Rico-Related Bonds
- Puerto Rico's Government Ethics Framework
- Issuers' Use of Interest Rate Swaps
- Puerto Rico's Lack of a Clear Mechanisms for Validating Puerto Rico-Related Bonds Before They Issue
- Possession Tax Credit

The independent investigator also presented an overview of potential causes of action. The Debt Investigation Report in its entirety can be found on the Oversight Board's website.

On August 28, 2018, the Oversight Board appointed a special claims committee (the Special Claims Committee) and delegated to the Special Claims Committee any and all authority of the Oversight Board to review the findings in the Debt Investigation Report and to take any appropriate steps, including without limitation, recommending and/or initiating the negotiation and/or prosecution of claims based on the findings in the Debt Investigation Report on behalf of the Title III debtors for the benefit of all creditors and parties in interest in the Title III cases. The Special Claims Committee is entitled, in its full discretion, to determine the scope of any further action, including, but not limited to, additional investigation, as well as claims to be pursued, and to retain such advisors, consultants, attorneys or other advisors as it in its sole discretion sees fit. On October 25, 2018, the Special Claims Committee signed the contract with the firm that will provide those services. The System is cooperating with this investigation.

For more information on the adversary proceedings and other motions in the Title III cases commenced by the Special Claims Committee against the System, refer to note 13 to the basic financial statements.

D. Impact of Natural Disasters

On September 6, 2017 and September 20, 2017, Hurricane Irma and Maria respectively made landfall in Puerto Rico. The hurricanes causes unprecedented and catastrophic damage to the island, its people and its business. As result of Hurricane Maria, the System's headquarters suffered major damages. To continue operations, the System had to relocate its offices and entered into a lease agreement with the Puerto Rico Public Buildings Authority. As a result of the relocation, the System eliminated certain of its prior contracts related to auxiliary services and negotiated new ones.

On December 28, 2019, the first of many earthquakes shook Puerto Rico. Since then, there have been more than 400 earthquakes of magnitude 2 or greater on the Richter scale, including its most destructive earthquake in a century with a magnitude of 6.4. Based on preliminary estimates, these earthquakes have caused approximately $500 million in damages, and thousands of Puerto Rico residents have been forced into refugee camps, as they are afraid to sleep in homes that could collapse in an aftershock. According to a January 29, 2020 report published by the United States Geological Survey, the aftershocks in Puerto Rico are not expected to stop any time soon, with earthquakes of at least a magnitude of 3 or greater expected to occur daily over the next several months and thereafter weekly for years.

E. Former Governor Rosselló's Resignation and Government Transition under Governor Vázquez

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and, as of the date of these financial statements, currently serves as the Governor of the Commonwealth.

F. Oversight Board Files Joint Plan of Adjustment for the Commonwealth, the System, and PBA

On September 27, 2019, the Oversight Board – as representative of the Commonwealth, the System, and PBA in their respective Title III cases – filed its initial joint Title III plan of adjustment for the Commonwealth, the System and PBA [ECF No. 8765] (the Initial Plan) along with a disclosure statement related thereto [ECF No. 8765] (the Initial Disclosure Statement). On February 28, 2020, the Oversight Board filed its *Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 11946] (the Amended Plan) and an amended disclosure statement related thereto [ECF No. 11947] (the Amended Disclosure Statement), which revised the Initial Plan to conform to the PSA.

The Amended Plan and Amended Disclosure Statement do not reflect the potential impact from the on-going outbreak of a respiratory illness caused by a novel (new) coronavirus known as COVID-19 first identified in Wuhan, Hubei Province, China. As a result, on March 23, 2020, the Oversight Board filed an urgent motion requesting to adjourn consideration of the Amended Disclosure Statement – currently scheduled for June 3 and June 4, 2020 – until further notice.

The Amended Plan and Amended Disclosure Statement remain subject to future amendments, particularly given the potential economic impact of COVID-19, and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm the Amended Plan.

For further information, please refer to the publicly available Amended Plan and Amended Disclosure Statement, available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

G. Cybersecurity Attack

During January 2020, the System discovered that an external agent gained access to the System's Office 365 application. Apparently, the attacker impersonated a Finance Department's employee email account and sent electronic communications to multiple public corporations. In the aforementioned electronic communications, the attacker gave instructions to change deposit bank accounts. This event did not involve an intrusion in the System's accounting system, nor bank accounts, and System's participants personal information. This event is under state and federal investigation. As of the date of this financial statements four public corporations transferred funds to the fraudulent banks accounts of approximately $4.4 million. The System is still investigating the matter and contracted the services of GM Security Technologies to investigate in deep this incident and provide recommendations to the System's IT security policies. The System is also evaluating the effects of this cyber-attack and could include loss of revenues, increases in cybersecurity costs and an increase in insurance premiums, among others.

H. Coronavirus Pandemic

On March 15, 2020, the Governor of Puerto Rico issued the Executive Order #OE-2020-023 to make the necessary closures of the government and private companies to combat the effects of Coronavirus (COVID-19). The closure consists of a 14-days lock down and social distancing from March 16 to March 30, 2020. After this date, various executive orders were issued extending the closures of the government and private companies. The most recent was the Executive Order #OE-2020-048 issued on June 28, 2020 eliminates the lock down previously imposed and reduces the curfew hours imposed on the citizens of Puerto Rico and the control measures implemented to contain the spread of the COVID-19 through the island until July 22, 2020.

As the result of the Executive Order, the System closed its operations effective March 16, 2020 and our operations since such date are very limited. The effect of the closing on our operations cannot be reasonable estimated at this time but we believe this closing will have a limited impact in our financial statements and operations.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in the Employers' Net Pension Liability and Related Ratios –
Pension Benefits (Unaudited)

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	2017 Amount	2016 Amount
Total pension liability:		
Service cost	$ 628,025	496,732
Interest	1,035,844	1,230,843
Differences between expected and annual experience	(248,414)	(252,405)
Changes in assumptions	(4,179,110)	3,853,693
Plan changes	(2,017,468)	—
Benefit payments, including refunds of contributions	(1,559,924)	(1,565,152)
Net change in total pension liability	(6,341,047)	3,763,711
Total pension liability – beginning	36,432,873	32,669,162
Total pension liability – ending (a)	30,091,826	36,432,873
Plan's fiduciary net position (deficit):		
Employer contributions – net of provision	921,537	779,477
Member contributions	320,095	333,633
Net investment income	28,155	870
Other income	56,626	110,201
Benefit payments, including refunds of member contributions	(1,559,924)	(1,565,152)
Administrative expenses	(24,358)	(27,670)
Interest on bonds payable	(198,084)	(196,211)
Other expenses	(387,015)	(32,761)
Net change in plan fiduciary net position	(842,968)	(597,613)
Total fiduciary net position (deficit) – beginning	(1,265,885)	(668,272)
Total fiduciary net position (deficit)– ending (b)	(2,108,853)	(1,265,885)
Employers' net pension liability – ending (a)-(b)	$ 32,200,679	37,698,758
Plan's fiduciary net position (deficit) as a percentage of the total pension liability	(7.01)%	(3.47)%
Covered employee payroll	$ 3,344,197	3,344,382
Employers' net pension liability as a percentage of covered employee payroll	962.88 %	1127.23%

Note: Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Investment Returns – Pension Benefits (Unaudited)

Fiscal year ended (1)	Annual money-weighted rate of return, net of expenses
June 30, 2017	6.8 %
June 30, 2016	6.7
June 30, 2015	4.2

(1) Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Employers' Contributions – OPEB (Unaudited)

(Dollars in thousands)

Fiscal year ended (1)		Annual required contributions	Actual employers' contributions	Percentage of contribution
June 30, 2017	$	105,859	91,280	86.2 %
June 30, 2016		107,739	93,728	87.0
June 30, 2015		103,878	97,374	93.7
June 30, 2014		88,508	102,085	115.3
June 30, 2013		154,999	91,823	59.2
June 30, 2012		133,654	94,664	70.8
June 30, 2011		129,395	93,851	72.5
June 30, 2010		128,294	88,599	69.1

(1) The System's annual required contributions for the year ended June 30, 2017 and 2016 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2017 and 2016 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress – OPEB (Unaudited)

(Dollars in thousands)

Actuarial valuation date (1)	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Unfunded Actuarial accrued liability (UAAL)	Funded ratio	Annual covered payroll	UAAL percentage of annual covered payroll
June 30, 2017	$ —	1,138,309	1,138,309	— %	$ 3,344,197	34.0 %
June 30, 2016	—	1,349,503	1,349,503	—	3,344,382	40.4
June 30, 2015	—	1,428,788	1,428,788	—	3,319,280	43.0
June 30, 2014	—	1,438,475	1,438,475	—	3,489,096	41.2
June 30, 2013	—	1,482,879	1,482,879	—	3,489,096	42.5
June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59.4
June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48.0
June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	44.5

(1) The System's OPEB funded status as of June 30, 2017 and 2016 were determined by the actuarial valuation at beginning of year that was updated to roll forward the funded status to June 30, 2017 and 2016 and assuming no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

See accompanying notes to required supplementary information and independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information

June 30, 2017

(1) Changes in Benefits Terms

There have not been any changes in plan provisions since the prior valuation.

(2) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

Based on the depletion of System assets during recent fiscal years and the implementation PayGo under Act 106-2017, the investment return assumption is no longer applicable to the System as of June 30, 2017. As of June 30, 2016, the investment return assumption was 6.55% per annum, net of investment expenses and based on the System's investment policy, including target asset allocation and expectations regarding the loan portfolio and the System's actuary's capital market assumptions as of June 30, 2016.

The projected mortality improvement scale was updated from Scale MP-2016 to Scale MP-2017, which was published by the Society of Actuaries in October 2017. Also, as Scale MP-2015 is a two-dimensional mortality scale, the base mortality rates for the post-retirement mortality assumption were set to the 2010 rates – the central year of the 2007 to 2012 System experience study upon which the rates were based. In addition, the pre-retirement mortality rates were also updated to reflect updated mortality tables published by the Society of Actuaries.

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the Additional Uniform Contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth, public corporations and the municipalities and in the event that their financial condition does not improve in the near term. In addition, Act 106-2017 eliminated the Additional Uniform Contribution.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to determine the total pension liability increased from 2.85% at June 30, 2016 to 3.58% at June 30, 2017, determined under GASB Statement No. 67. Under GASB Statement No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. Under former GASB Statements No. 25 and No. 27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. For fiscal years 2008 to 2010 and for fiscal years 2011, 2012 and 2013, the discount rates determined under GASB Statements No. 25 and No. 27 were 7.50%, 6.40%, 6.00% and 6.40%, respectively.

Also, the valuations for fiscal year 2017 and 2016 reflect a salary freeze until July 1, 2017 due to Act No. 66 and the current economic conditions in Puerto Rico.

(3) Changes in Actuarial Methods since the prior Valuation

There have not been any changes in methods since the prior valuation.

In fiscal years 2017 and 2016, the census data collection date is as of beginning-of-fiscal-year. The total pension liability at end of year was determined by actuarial valuation as of the census data collection date at beginning-of-year and was then projected forward to end-of-year, using roll-forward methods and assuming no liability gains or losses.

The June 30, 2017, actuarial valuation reflects a decrease of $5,498 million in the net pension liability, mainly related to changes in assumptions of $4,179 million, as a result of an increase in the discount rate as required by GASB Statement No. 67 from 2.85% in fiscal year 2016 to 3.58% in fiscal year 2017, and the effect of plan changes of approximately $2,017 million.

(4) Method and Assumptions Used in the System's Actuarial Valuation

The following actuarial methods and assumptions were used in the System's actuarial valuation of June 30, 2017:

Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	Not applicable
Municipal bond index	3.58%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3 of 2017, four year extension of the Act 66-2014 and the current general economy.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Required Supplementary Information

June 30, 2017

Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

PUBLIC BUILDINGS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITOR'S REPORT

AND

BASIC FINANCIAL STATEMENT AND

OTHER SUPPLEMENTARY INFORMATION

For the years ended June 30, 2017 and 2016

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

RAMIREZ FLORES AND CO, PSC
CERTIFIED PUBLIC ACCOUNTANTS
Coliseum Tower, Suite 101, 576 Arterial B
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Member of Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the *Public Buildings Authority* (the Authority), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed int the table of contents. The financial statements as of and for the year ended June 30, 2016, before restatement, were audited by other auditors whose report dated April 25, 2018 expressed a qualified opinion on such statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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To the Board of Directors of the
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Page 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our Opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Public Buildings Authority as of June 30, 2017, and the respective changes in financial position and its cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reissuance of June 30, 2017 financial statements

As reflected in Note 24, the Authority reissued the financial statements issued on June 24, 2019, because the management subsequently discovered facts about the agreements with monoline insurers of the Authority's bonds containing subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and recognized such liability.

Also reflected in Note 24, the Authority's management subsequently discovered facts about the impact recorded as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. After further consideration of the legal aspects of the agreement, management corrected the balances reflected in the Statement of Net Position (Deficit) as of June 30, 2017 and the Statement of Revenues Expenses and Changes in Deficit for the year then ended.

Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, in the Notes.

Our opinion was not modified with respect of the above matters.

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Emphasis of Matter (continued)

Uncertainty about Ability to Continue as a Going Concern-the Authority

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Notes 3, 6, and 11 to the financial statements, the Authority is a component unit of the Commonwealth. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Authority depends significantly on appropriations from the Commonwealth, the financial condition and liquidity of the Authority has been similarly affected. Further, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation and plans regarding these matters are described in note 3 to the basic financial statements. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 5 to 19 and the schedule of funding progress for post-employment healthcare benefits on page 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we

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To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of bond sinking funds accounts and the schedule of operating rental revenues on pages 75 and 76, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of bond sinking funds accounts ant the schedule of operating rental revenues are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in United states of America. In our opinion the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2020, see emphasis of a matter paragraph, reissuance of June 30, 2017 financial statements, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The Purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That reports an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico
March18,2020
Certified Public Accountants
License No. 231 expires December 1, 2021
Stamp No. 381406 of the P.R. Society of
Certified Public Accountants has been
Affixed to the file copy of this report

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Introduction

As management of the Public Buildings Authority ("the Authority"), we reissued the financial statements issued on June 24, 2019, because we subsequently discovered that the agreements with monoline insurers of our bonds contain subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and we are recognizing such liability. We offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority FOR THE YEARs ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- The Authority's deficit increased by $38.7 million or 4.5% during the year ended June 30, 2017. For the year ended June 30, 2016, the deficit increased by $255.8 million or 87.4%. For the year ended June 30, 2017, the Authority reported an increase in rental income of $158.0 million. For the year ended June 30, 2016 the Authority reported a decrease in rental income of $201.5 million. During the year ended June 30, 2016, the Authority reduced the rent revenue by $222.5 million that resulted from a more conservative estimate for uncollectible amounts due from the Commonwealth, in which all but current year rent receivable was reserved as uncollectible. During the year ended June 30, 2017, management accounted for the offset of the Authority's cash balances, rent due from GDB, and line of credit due GDB as a result of agreement between the two entities for $42.6 million. During the year ended June 30, 2016, the Authority charged the debt service rental by $13.4 million for repayment of GDB line of Credit. During the year ended June 30, 2017, operating expenses decreased by $4.5 million or 1.9%. During the year ended June 30, 2016, operating expenses decreased by $2.6 million or 1.2%.

- The Authority's operating income increased from a restated loss of $31.6 million for the year ended June 30, 2016 to an operating income amounting to $130.8 million for the year ended June 30, 2017, mostly due to the reduction of 2016 rent revenue of $222.5 million, for estimated uncollectible amounts as explained in the preceding paragraph.

- The Authority's non-operating expenses decreased from $243.6 million for the year ended June 30, 2016 to $169.6 million for the year ended June 30, 2017 mostly due to the recognition of the aforementioned agreement between the Authority and GDB and the 2016 custodial credit risk loss on deposits held with GDB amounting to $40.6 million.

Going Concern and Liquidity Risk

The Authority's management believes that there is substantial doubt as to its ability to continue as a going concern in accordance Governmental Accounting Standard Board (GASB) Statements No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.

The Authority operations have been directly affected by the Commonwealth liquidity limitations and constraints during the years ended June 30, 2017 and 2016. As the Commonwealth's tax base has shrunk and its revenues declined by prevailing economic conditions resulting from a prolonged economic recession which commenced in 2006. High unemployment, population decline, and high levels of debt and debt service requirements, pension obligations, and health care costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services and budget reductions allocable to governmental units, including the Authority. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations contributed to significant budget deficits for several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints have directly impacted the Authority's liquidity resulting in noncompliance with repayment of debt obligations when they became due during the years ended June 30, 2017 and 2016.

Fiscal Plan

Additionally, pursuant to PROMESA and the requirements imposed by the Oversight Board, on October 23, 2018, the Oversight Board certified its own fiscal plan for the Commonwealth (the Board Fiscal Plan). The Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. The Authority, as enforced by law, is adhered to such Fiscal Plan.

Overview of the Basic Financial Statements

The Authority's basic financial statements consist of: Management's Discussion and Analysis ("MD&A"), Basic Financial Statements, Notes to financial Statements, Required Supplementary Information and Other Supplementary Information.

Management's Discussion and analysis

The management's discussion provides an analysis to assist the readers in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's basic financial statements.

Basic Financial Statements

The statement of Net Position presents financial information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed

expenses. Increases in assets, without a corresponding increase to liabilities, result in a net position increase, which also indicates an improved financial position.

The Statement of Revenues, Expenses and Changes in Net Positions presents information showing how the Authority's net position changed during the period and are reported as soon the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, investing activities, and non-cash items.

The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

Required Supplementary Information

The required supplementary information provides information concerning the Authority's progress in funding of postemployment healthcare benefits to employees.

Other Supplementary Information

In addition to the basic financial statement, accompanying notes and required supplementary information, various schedules present certain information concerning changes in bond sinking funds accounts and detail of operating rental revenues.

Overall Financial Analysis

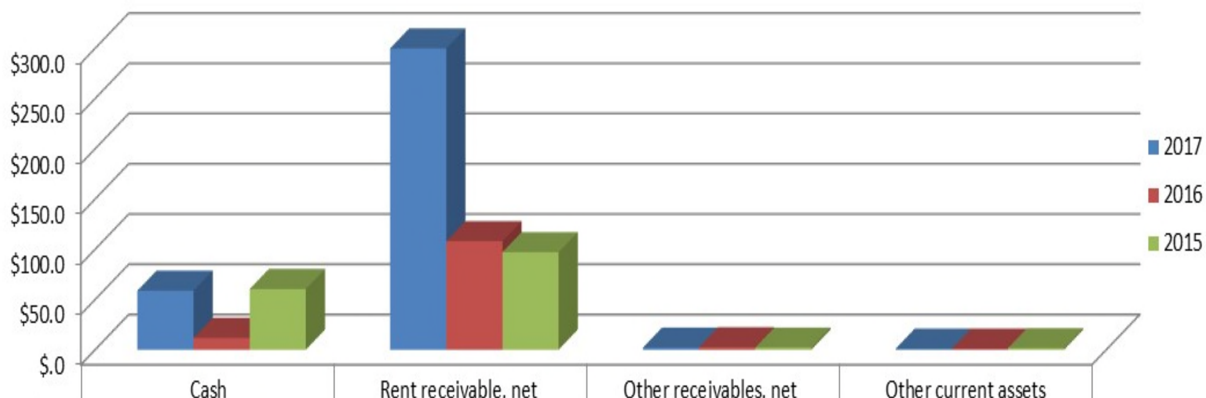
As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Authority, the deficit at June 30, 2017, 2016 and 2015 amounted to approximately $901.8 million, restated $863.1 million, and restated $587.7 million, respectively.

Statement Net Position

Following is condensed financial information of the Authority's statements of net position:

	June 30,		
	2017	2016	2015
Assets			
Current assets	$ 361,483,628	$ 123,085,453	$ 160,856,633
Capital assets	3,414,144,012	3,509,135,717	3,584,774,401
Other non-current assets	38,234,019	203,911,657	429,907,289
Total assets	3,813,861,659	3,836,132,828	4,175,538,323
Deferred outflows of resources	206,062,037	166,991,114	175,765,103
Total assets and deferred outflows of resources	4,019,923,695	4,003,123,942	4,351,303,426
Liabilities			
Current liabilities	382,591,805	263,029,360	274,382,923
Non-current liabilities	4,590,396,863	4,601,178,603	4,629,945,142
Total liabilities	4,972,988,669	4,864,207,963	4,904,328,065
Deferred Inflows of Resources	8,507,891	2,053,700	-
Total liabilities and deferred inflows of resources	4,981,496,560	4,866,261,663	4,904,328,065
Deficit			
Net investment in capital assets	(611,126,864)	(94,389,572)	31,690,664
Restricted Deficit	-	-	8,800,871
Deficit	(350,446,001)	(768,748,150)	(333,205,891)
Total deficit	$ (961,572,865)	$ (863,137,722)	$ (292,714,356)

Current assets (in millions)



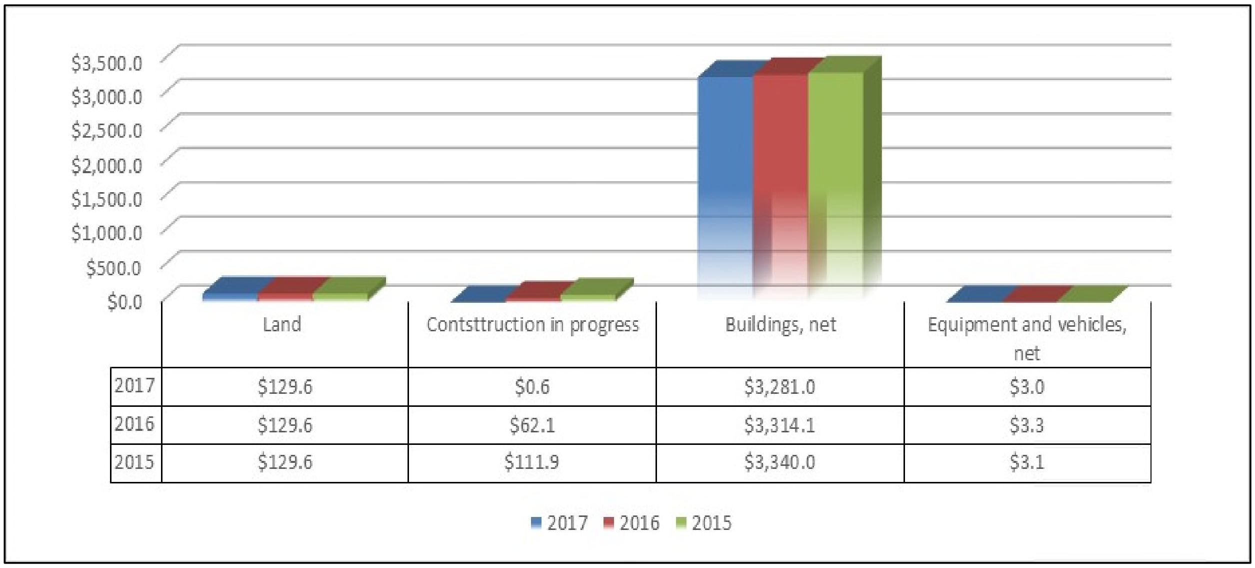
	Cash	Rent receivable, net	Other receivables, net	Other current assets
2017	$58.7	$299.8	$2.0	$1.0
2016	$11.7	$107.9	$2.5	$1.0
2015	$60.4	$97.0	$2.1	$1.4

When comparing June 30, 2017 with June 30, 2016, current assets increased by $238.4 million or 194%. Within current assets, cash at June 30, 2017 was $47.0 million or 401.5% higher than at June 30, 2016, rent receivable, net, was $191.1 million higher than previous year, thus accounting for most of the increase in current assets. This increase in cash was primarily the result of the cash flows activity from the Department of Treasury which withheld payments in fiscal year ended June 30, 2016, as reflected in the decrease in balance from June 30, 2015, and receipts from the Department of Treasury during the year ended June 30, 2017 for rent due and not paid in the year ended June 30, 2016.

When comparing June 30, 2016 with June 30, 2015 current assets decreased by approximately $37.8 million or 23.5%. This decrease was mainly related the decrease in the certificates of deposit balance and the custodial credit risk loss on deposits held with Government Development Bank (GDB) amounting to $40.6 million.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Capital assets (in millions)



	Land	Contsttruction in progress	Buildings, net	Equipment and vehicles, net
2017	$129.6	$0.6	$3,281.0	$3.0
2016	$129.6	$62.1	$3,314.1	$3.3
2015	$129.6	$111.9	$3,340.0	$3.1

Construction in progress consists principally of costs incurred. Including capitalized interest and administrative costs, in the construction of new facilities or improvement to existing facilities. During the year ended June 30, 2012, the Authority commenced with the 21st Century School Program (the School Program), which consists of the construction or improvement of over 100 public schools.

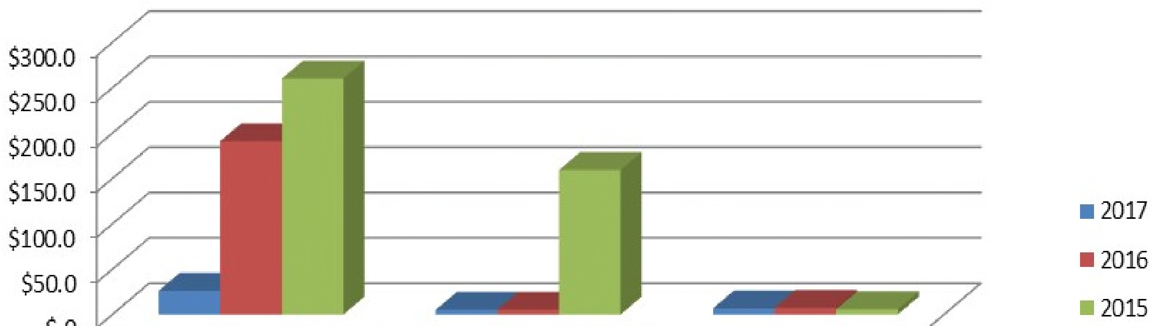
The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the Commonwealth, to serve as construction manager. Under the contract, AFI is responsible for the management of the program including, among others, contracting general contractors and/or subcontractors, inspection, supervision and acceptance of the remodeled schools and, in certain cases, provides maintenance to the schools. AFI bills the Authority the cost of the program plus an administrative fee.

At June 30, 2017, 2016 and 2015 construction in progress includes approximately $553 thousand, $62.1 million, and $11.9.9 million, respectively related to the School Program.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

When facilities under construction are completed, the cost of the facility is transferred to the account where the Authority commences to record depreciation on the facility and charges rent to the facility's tenants.

Other non-current assets (in millions)



	Restricted cash	Note rec. from other gov. agency	Prepaid insurance on bonds
2017	$26.2	$5.3	$6.8
2016	$191.1	$5.4	$7.4
2015	$260.1	$159.3	$5.9

When comparing June 30, 2017 with June 30, 2016, other non-current assets decreased by $165.9 million or 40.7%, mostly due to the use of the Bond sinking funds to make debt service payments with no contributions to the sinking fund or debt service payments resulting from a moratorium declared by the Commonwealth of Puerto Rico.

During the years ended June 30, 2016 and 2015, restricted cash and cash equivalents decreased by approximately $68.9 million and $78.2 million or 27% and 23%, respectively, principally due to a decrease in construction fund for monies used to finance the cost of facilities constructed during the year, especially the schools under the School Program and the loss on custodial credit risk amounting to $12.4 million during year 2016.

PUBLIC BUILDINGS AUTHORITY
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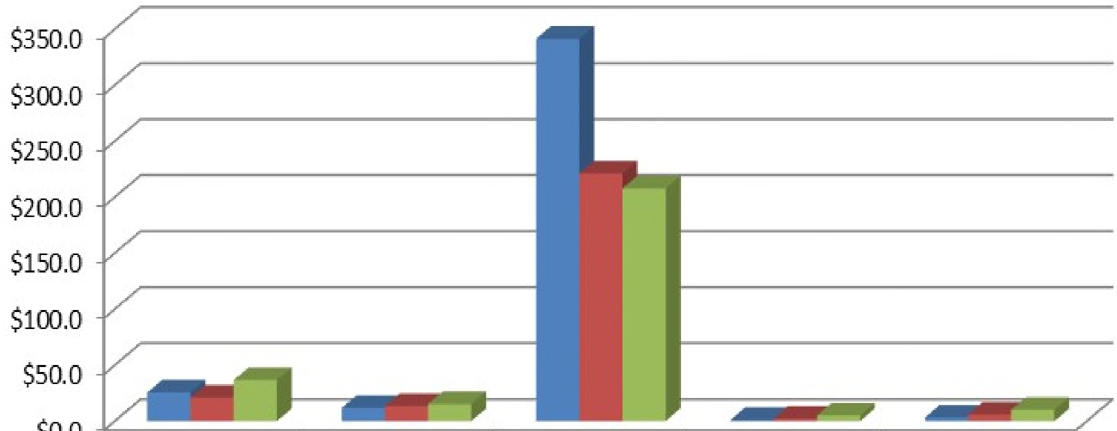
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Current liabilities (in millions)



	Accounts payable	Accrued expenses	Bonds and interest payable	Rent collected in advance	Due to contractors
2017	$25.5	$11.6	$341.3	$1.0	$3.1
2016	$21.0	$13.4	$221.0	$2.2	$5.9
2015	$36.6	$15.2	$207.6	$4.9	$10.1

When comparing June 30, 2017 with June 30, 2016, current liabilities increased by $119.1 million or 45.2%, mostly due to the Commonwealth of Puerto Rico moratoria in debt service payments during the year ended June 30, 2017, resulting in an increment in bonds and interest due.

Accounts payable at June 30, 2017 increased by $4.6 million when compared with June 30, 2016 mostly due to delays in payments to vendors to preserve cash.

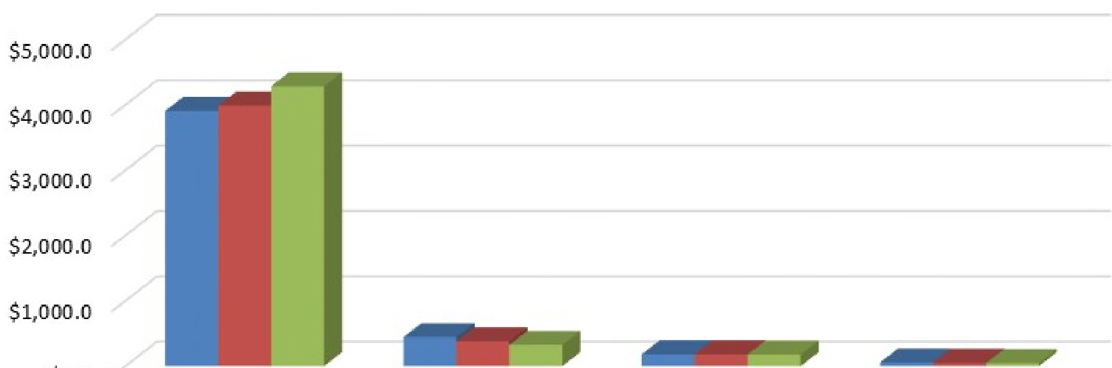
Accrued expenses at June 30, 2017 decreased by $1.8 million when compared with June 30, 2016 mostly due to the following: a) a decrease in compensated absences ($3.8 million); b) other accrued expenses ($2.7 million); c) net of an increase in voluntary termination benefits ($4.7 million).

Bonds and interest payable consist of the current portion of the amounts due at June 30, 2017 and 2016. The amount due at June 30,2016 are in accordance with debt repayment schedule. The amount due at June 30,2017 are in compliance with debt repayment schedule and include subrogation rights that are limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Due to contractor represents the balance for projects under constructions. Normally, the contractors submit progress billing for projects in process and the authority pays thee invoices, except for the retainage portion. This withholding is used as a guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

Non-current liabilities (in millions)



	Bonds payable	Net pension liability	Line of credit	Other
2017	$3,907.4	$444.5	$182.2	$56.3
2016	$3,987.2	$380.7	$182.2	$50.6
2015	$4,284.6	$325.0	$178.2	$45.8

The decrease in bonds payable during the years ended June 30, 2017 and 2016, consists of the payments made during each fiscal year in accordance with the related payment schedule.

The increase in net pension liability in the years ended June 30, 2017 and 2016 were $63.8 million and $55.7 million, respectively. The Authority implemented in the year ended June 30, 2017, GASB statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27, with corresponding restatements of the Statement of Net Deficit as of June 30, 2016 and the Statement of Revenues, Expenses and Changes in Deficit for the year ended June 30, 2016, including the restatement of beginning net deficit. This resulted in a net adjustment to net deficit of approximately $295.0 million as of June 30, 2015 and $314.6 million as of June 30, 2016.

The Authority has various line of credit agreements with GDB. Some of the agreements are to provide interim financing for construction of Authority's facilities while others are to finance operations including the financing of debt services requirements under the bond agreements.

Other non-current liabilities at June 30, 2017 and 2016, mainly consist of the non-current portion of post-retirement employee benefits, legal claims, voluntary termination benefits, and advances from other agencies. These amounts mainly increased in total by $6.0 million: $15 million increase in voluntary termination benefits, $13.2 million decrease in accrued legal contingencies, $.873 million increase in other post-employment benefits, $3.2 million increase in compensated absences.

Statement of Revenues, Expenses and Changes in Deficit

Following is a condensed financial information of the Authority's statement of revenues, expenses and changes in deficit:

	Years Ended June 30,		
	2017	**2016**	**2015**
REVENUES:			
Operating	$ 363,794,738	$ 205,780,405	$ 407,268,438
Non-operating	30,003,409	37,661,553	42,134,794
Total revenues	393,798,147	243,441,958	449,403,232
EXPENSES:			
Operating	251,994,173	237,480,679	220,476,925
Non-operating	240,239,117	281,348,413	241,173,609
Total expenses	492,233,290	518,829,092	461,650,534
Change in net deficit	(98,435,143)	(275,387,135)	(12,247,302)
Deficit:			
Beginning of year, as restated	(863,137,722)	(587,750,587)	(575,503,285)
End of year	$ (961,572,865)	$ (863,137,722)	$ (587,750,587)

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

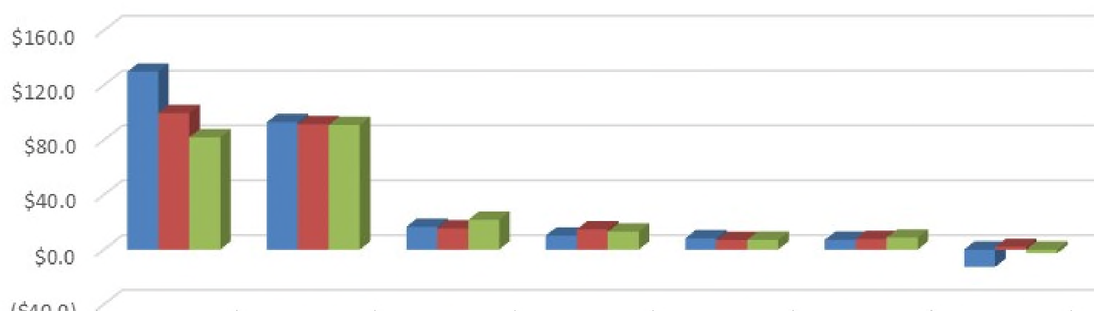
Operating revenues

Operating revenues consists principally of rent charges to agencies, public corporations and municipalities of the Commonwealth. Operating revenues increased $158.0 million from 2017 to 2016 mainly as a result of uncollectible amounts expense recognized in 2016 of $222.5 for rent receivables by agencies and public corporations of the Commonwealth.

Operating revenue decreased approximately $201.5 million from 2015 to 2016 as a result of reduction in the estimated rent made by the Commonwealth.

Expenses (in millions)

The following chart discloses the major components of operating expenses for the years ended June 30, 2017, 2016 and 2015:



	Salaries and benefits	Depreciation	Utilities	Repairs	Other	Rent and insurance	Legal claims
2017	$129.8	$92.9	$16.6	$10.2	$8.1	$7.0	($12.6)
2016	$99.5	$91.6	$15.5	$14.7	$6.8	$7.6	$1.8
2015	$81.8	$91.0	$21.8	$12.9	$7.0	$8.7	($2.7)

During the year ended June 30, 2017 operating expenses decreased by $4.5 million or 1.9% when compared with fiscal year 2016. During the year ended June 30, 2016 operating expenses decreased by $2.6 million or 1.2% when compared with fiscal year 2015. Salaries and benefits increased by approximately $30.3 million mostly due to the implementation of GASB No. 68 and preretirement state Law No. 211 of 2015. Depreciation expense increased by $1.3 million due to increase in projects transferred as completed and started to depreciate. Utility expenses increased by $1.1 million mostly due to increases in utility rates. The repairs and maintenance expenses decreased by $4.5 million mostly due to lack of resources to perform preventive maintenance and repairs. The other expenses increased by $1.3 million. Rent and insurance decrease $0.6 million. Legal reserve decreased by approximately $14.4 million in response to management's reassessment of legal contingencies.

Non-operating Revenues and/or Expenses

Nonoperating expense consists of interests paid and accrued on Authority's bonds and lines of credit agreements with GDB amounting to $240.2 and $240.8 million during the years ended June 30, 2017 and 2016, respectively.

The custodial credit risk loss amounting to $41 million was recorded during the year ended June 30, 2016.

Interest and other income increase by $19.1 million primarily due to debt service insurance proceeds used to service debt the Authority defaulted on.

During the years ended June 30, 2017 and 2016, the Authority received a subsidy from the Federal Government in the amount of approximately $27.7 and $36.1 million, respectively, for the payment of interest on series R and T bonds issued during 2012.

During the years ended June 30, 2017 and 2016, the authority received operating grants from the Commonwealth to finance operating expenses in the amounts of approximately $1.8 million and $832 thousand, respectively.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Capital Assets:

	June 30, 2017	June 30, 2016	Change
Capital assets not being depreciated			
Land	$ 129,569,461	$ 129,569,461	$ -
Construction in process	553,531	62,091,446	(61,537,915)
Total	130,122,992	191,660,907	(61,537,915)
Capital assets being depreciated			
Buildings	3,281,040,376	3,314,131,540	(33,091,164)
Equipment and vehicles	2,905,503	3,343,270	(437,767)
Total	3,283,945,879	3,317,474,810	(33,528,931)
Total Capital assets	$ 3,414,068,871	$ 3,509,135,717	$ (95,066,846)

	June 30, 2016	June 30, 2015	Change
Capital assets not being depreciated			
Land	$ 129,569,461	$ 129,550,969	$ 18,492
Construction in process	62,091,446	111,941,071	(49,849,625)
Total	191,660,907	241,492,040	(49,831,133)
Capital assets being depreciated			
Buildings	3,314,131,540	3,339,965,262	(25,833,722)
Equipment and vehicles	3,343,270	3,118,735	224,535
Total	3,317,474,810	3,343,083,997	(25,609,187)
Total Capital assets	$ 3,509,135,717	$ 3,584,576,037	$ (75,440,320)

The Authority's investment in capital assets as of June 30, 2017 and 2016 amounted to approximately $3.4 and $3.5 billion, net of accumulate depreciation, respectively. Capital assets include land, land improvements, construction in progress, building, equipment, furniture, and vehicles. Most building consists of governmental facilities that are leased to the commonwealth's agencies and public corporations. For more information, please refer to Note 12 of the basic financial statement.

During the years ended June 30, 2017 and 2016, the Authority completed approximately $61.5 million in construction projects and $49.8 million, respectively, in construction projects that were leased to the Commonwealth mainly related to the 21st Century Schools projects.

Debt Administration

Debt consist principally of bond payable, net of related unamortized bond discount or premiums, and borrowing under line of credit agreements with GDB. It does not include the balance of subrogated rights limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds. Debt was issued principally to finance capital assets and to finance operating expenses and is summarized as follows:

	June 30,		
	2017	**2016**	**Change**
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	3,957,179,866	4,028,647,000	(71,467,134)
Total	3,994,494,866	4,065,962,000	(71,467,134)
Add (deduct):			
Bond discount	(23,895,255)	(25,246,416)	1,351,161
Bond premiums	28,293,540	32,598,039	(4,304,499)
Total	4,398,285	7,351,623	(2,953,338)
Bonds payable net	3,998,893,151	4,073,313,623	(74,420,472)
Lines of credit with GDB	182,160,106	182,160,106	-
Total debt	$ 4,181,053,257	$ 4,255,473,729	$ (74,420,472)

	June 30,		
	2016	**2015**	**Change**
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	4,028,647,000	4,110,647,000	(82,000,000)
Total	4,065,962,000	4,147,962,000	(82,000,000)
Add (deduct):			
Bond discount	(25,246,416)	(26,597,576)	1,351,160
Bond premiums	32,598,039	37,667,809	(5,069,770)
Deferred loss on bonds defeased	-	-	-
Total	7,351,623	11,070,233	(3,718,610)
Bonds payable net	4,073,313,623	4,159,032,233	(85,718,610)
Lines of credit with GDB	182,160,106	178,183,854	3,976,252
Total debt	$ 4,255,473,729	$ 4,337,216,087	$ (81,742,358)

June 30, 2017 and 2016

During the year ended June 30, 2017, bonds payable decreased by approximately $71.5 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. The bonds payable does not include the balance of subrogated rights limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds.

June 30, 2016 and 2015

During the year ended June 30, 2016, bonds payable decreased by approximately $82.0 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. During fiscal year 2016, the Authority did not make payments for available line of credits; proceeds were obtained for $3.9 million. Also, scheduled interests for the year on such line of credits were not paid.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Building Authority, PO Box 41029, San Juan, PR 00940-1029.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents, includes custodial credit risk of $62,025,050 in 2017 and $28,162,468 in 2016	$ 58,669,361	$ 11,698,832
Rent receivable, net of allowance for uncollectible accounts	299,844,011	107,925,407
Other receivables, net of allowance for uncollectible accounts	1,985,242	2,450,986
Other current assets	985,014	1,010,229
Total current assets	361,483,628	123,085,453
Non-current assets:		
Restricted cash and cash equivalents:		
Bond sinking funds	4,492,977	167,231,893
Construction funds, includes custodial credit risk of $221,232,486 in 2017 and $8,322,926 in 2016	21,692,645	23,903,626
Note receivable from other governmental agency	5,281,269	5,366,086
Prepaid insurance on bonds	6,767,128	7,410,052
Capital assets:		
Land and construction in progress	130,122,993	191,660,907
Buildings, equipment and vehicles, net	3,284,021,019	3,317,474,810
Total non-current assets	3,452,378,031	3,713,047,374
Total assets	3,813,861,659	3,836,132,828
Deferred Outflows of Resources -		
Deferred loss on bond defeasance	90,231,166	98,828,558
Deferred outflows related to pension plans	115,830,871	68,162,556
Total deferred outflows of resources	206,062,037	166,991,114
Total assets and deferred outflows of resources	$ 4,019,923,695	$ 4,003,123,942

Continues

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2017 AND 2016

Continued

	2017	2016
LIABILITIES AND NET POSITION (DEFICIT)		
Current liabilities:		
Accounts payable	$ 20,081,927	$ 8,215,889
Intergovernmental	3,424,773	9,546,497
Accrued expenses	797,246	3,090,596
Rent collected in advance	1,024,065	2,204,411
Accrued legal contingencies	133,749	480,724
Compensated absences	3,999,779	7,833,309
Other post-employment benefits	400,765	390,278
Voluntary termination benefits	6,301,591	1,595,085
Current liabilities payable from restricted assets:		
Bonds payable	100,991,226	86,125,000
Interest payable	240,268,116	134,912,621
Due to contractors	3,145,518	5,902,448
Due to Puerto Rico Infrastructure Financing Authority	2,023,050	3,213,227
Total current liabilities	382,591,805	263,510,084
Non-current liabilities:		
Borrowing under line of credit	182,160,107	182,160,107
Bonds payable	3,907,412,263	3,987,188,623
Advances from other governmental agencies	553,531	460,329
Due to contractors	8,451,593	8,904,067
Accrued legal contingencies	4,643,003	17,857,514
Compensated absences	8,505,313	5,240,833
Net pension liability	444,525,548	380,714,914
Other post-employment benefits	15,890,486	15,017,444
Voluntary termination benefits	18,255,019	3,154,047
Total non-current liabilities	4,590,396,863	4,600,697,879
Total liabilities	4,972,988,669	4,864,207,963
Deferred Inflows of Resources		
Deferred inflows related to pension plan	8,507,891	2,053,700
Total liabilities and deferred inflows of resources	4,981,496,560	4,866,261,663
Net deficit		
Net investment in capital assets	(611,126,864)	(94,389,572)
Deficit	(350,446,001)	(768,748,150)
Total Deficit	$ (961,572,865)	$ (863,137,722)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES EXPENSES AND CHANGES IN DEFICIT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016 As restated
Operating revenues:		
Rental revenues from governmental agencies, net of uncollectible amounts expense of $50,980,253 in 2017 and $222,461,178 in 2016	$ 363,794,738	$ 205,780,405
Operating expenses:		
Salaries and employees' benefits	129,829,984	99,504,950
Depreciation	92,869,207	91,631,886
Utilities	16,601,544	15,486,619
Repairs and maintenance	10,189,358	14,720,632
Voluntary termination benefits	33,571	160,624
Security services	2,050,000	1,748,517
Rent and insurance	7,014,281	7,567,781
Legal claims	(12,628,765)	1,761,144
Other, net of capitalized expenses of $7,453 and $14,487 in 2017 and 2016, respectively	6,034,993	4,898,527
Total operating expenses	251,994,173	237,480,679
Operating income (loss)	111,800,565	(31,700,274)
Non-operating revenue (expenses):		
Grant for the payment of bonds	27,669,504	36,135,387
Operating grants from commonwealth of Puerto Rico	1,623,015	831,643
Interest on bonds and notes	(240,239,117)	(240,758,111)
Interest and other income	353,860	347,237
Service charges and other	247,028	347,286
Custodial credit risk loss	110,002	(40,590,302)
Total non-operating revenue (expenses)	(210,235,708)	(243,686,860)
Change in deficit	(98,435,143)	(275,387,135)
Deficit		
At beginning of year as previously reported	-	(292,714,356)
Restatement adjustment - GASB Statement No. 68 adoption	-	(295,036,231)
At beginning of year, as restated	(863,137,722)	(587,750,587)
At end of year	$ (961,572,865)	$ (863,137,722)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating activities:		
Receipts from tenants	$ 161,428,497	$ 347,559,663
Payments to employees and related benefits	(84,454,572)	(79,651,270)
Payments for goods and services	(26,047,420)	(50,216,553)
Custodial credit risk loss	-	(28,162,468)
Net cash provided by operating activities	50,926,505	189,529,372
Noncapital related financing activities:		
Operating grants from Commonwealth of Puerto Rico	-	831,643
Other non-operating receipts (disbursments)	(1,190,176)	213,766
Net cash (used in) provided by noncapital related to financing activities	(1,190,176)	1,045,409
Capital and related financing activities:		
Capital expenditures, net of interest capitalized	-	(29,793,384)
Custodial credit risk loss	-	(12,427,834)
Subsidy from federal government for the payment of bonds	27,669,504	36,135,387
Payment of bonds	(79,776,360)	(82,000,000)
Proceeds from borrowing under line of credits	-	3,976,252
Interest paid	(134,874,622)	(238,146,359)
Proceeds from bond insurers	19,087,764	-
Advances from governmental agencies	93,202	277,095
Proceeds from sale of property	-	198,364
Net change in bonds loss defeased bonds	-	8,773,989
Net cash used in capital and related financing activities	(167,800,512)	(313,006,490)
Investing activities		
Net change in amount due from Commonwealth of Puerto Rico	84,817	475,746
Collection of notes receivable	-	500,653
Interest and investment income collected	-	342,260
Net cash provided by investing activities	84,817	1,318,659
Net decrease in cash and cash equivalents	(117,979,366)	(121,113,050)
Cash and cash equivalents		
At beginning of year	202,834,351	323,947,401
At end of year	$ 84,854,985	$ 202,834,351

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Continued

		2017		2016
Reconciliation of cash and cash equivalents presented in the statement of net position:				
Cash and cash equivalents	$	58,669,361	$	11,698,832
Restricted cash and cash equivalents:				
Bonds sinking funds		4,492,977		167,231,893
Construction funds		21,692,645		23,903,626
Total cash and cash equivalents	$	84,854,984	$	202,834,351
Reconciliation of operating income to net cash provided by operating activities:				
Operating (loss) income	$	111,800,565	$	(12,125,471)
Adjustment to reconcile operating income to net cash provided by operating activities:				
Depreciation		92,869,207		91,631,886
Uncollectible accounts expense		50,980,253		222,461,178
Net change in operating assets and liabilities:				
Rent receivable		(240,675,970)		(77,974,960)
Other receivables, net		474,155		-
Other current assets		25,215		430,237
Prepaid insurance on bonds		642,925		642,924
Accounts payable and accrued expenses		9,572,686		(4,666,994)
Rent collected in advance		(1,180,346)		(2,706,960)
Custodial credit risk loss		-		(28,162,468)
Due to contractors		(3,209,404)		-
Accrued legal contingencies		(13,080,762)		-
Compensated absences		(569,050)		-
Other post-employment benefits		873,042		-
Voluntary termination benefits		19,807,479		-
Net pension liability		63,810,634		-
Deferred outflows related to pension plans		(47,668,315)		-
Deferred inflows related to pension plans		6,454,191		-
Net cash provided by operating activities	$	50,926,505	$	189,529,372
Summary of Non-Cash Transactions:	$	-	$	-

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION

The Public Building Authority (the "Authority") is a blended component unit of the commonwealth of Puerto Rico (the "Commonwealth"), created on June 19, 1958 by Act No.56, As amended, of the Legislature of Puerto Rico (the "Enabling Act"). The Authority designs, construct, administers, and provides maintenances to office building, courts, warehouses, schools, health care facilities, welfare facilities, shops and related facilities leased to the commonwealth of its departments, agencies, instrumentalities or municipalities. The annual rent for each leased building is based on the amounts needed by the authority to cover the payment of:

i. Principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings;
ii. Operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation; and,
iii. Cost of equipment replacement and extraordinary repairs

Components (ii) and (iii), described above, are subject to escalation to permit the Authority to recover the costs incurred. Amounts due from departments and governmental agencies of the commonwealth may be subject to periodic revisions and/or adjustment based on the availability of funds at the commonwealth level.

The Enabling Act provides that the full faith and credit of the commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the commonwealth. The Enabling Act also provides that the Department of treasury of the commonwealth of Puerto Rico (Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of account receivable since the responsibility of reimbursement belong to the agency in accordance to the Enabling Act. This obligation was suspended pursuant the Puerto Rico Emergency Moratorium and Rehabilitation Act and executive orders issued thereunder, as described more fully in Note 25.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Basis of Accounting –** The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard- setting body for establishing governmental accounting and financial reporting principles.

The activities of the Authority are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded as incurred.

b. **Use of Estimates –** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

c. **Fair Value of Financial Instruments –** The carrying amounts reported in the statements of net positions for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximates the rates currently available in the market for other debt with similar terms and remaining maturities.

d. **Cash and Cash Equivalents –** Cash and cash equivalents include all highly liquid instruments with maturities of three months or less at time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows.

e. **Allowance for Uncollectible Accounts** – The allowance for uncollectible accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management’s estimate of losses in the receivables outstanding and the related allowance may change in the near term.

f. **Restricted Assets and Liabilities Payable from Restricted Assets –** Restricted assets represent the amounts deposited by the Authority to provide for the principal and interest payment of bonds payable and related interest costs and cash available in the related construction fund. When both restricted and unrestricted resources are available for specific use, it is the authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

g. **Capital Assets –** Capital` assets are recorded at cost. The construction cost includes indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than $100 and a useful life in excess of five (5) years.

Interest cost is capitalized as part of the historical cost of acquiring certain assets while the assets are readied for their intended use. Interest earned on unspent tax-exempt borrowings restricted for acquisition of qualifying assets is offset against interest costs to determine the net amount to be capitalized.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, is as follows:

Buildings	50 Years
Equipment's and automobiles	5-10 years

h. **Impairment of Capital Assets –** A capital assets is considered impaired when its service utility has declined significantly and unexpectedly. The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairments include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital asset, and construction stoppage, among others.

No impairment allowance was identified during the years ended June 30, 2017 and 2016.

i. **Claims and Judgments –** The estimate amount of the liability for claims and judgment is recorded on the accompanying statements of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

j. **Compensated Absences** – Compensated absences are accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

k. **Bonds premiums, Discounts, and loss on Defeasance –** Bond premiums and discount are amortized as a component of interest expense over the lives of the related issue using the straight-line method in a manner that approximates the interest method.

The deferred loss on bond defeasance is presented as deferred outflows in the accompanying statement of net position and the related amortization is presented as a component of interest expense.

l. **Deferred Outflows/Inflows of Resources –** In addition to assets and liabilities, the authority reports a separate section for deferred outflows/inflows of resources. This separate financial statement element, deferred outflows/inflows of resources, represents a consumption of net position that applies to a future period(s) and so be recognized as an outflow of resources (expense) until then.

m. **Net Position** – The difference between assets and liabilities is presented as "Net Position". Component of net position are the following:

1) Net investment in capital assets – Consists of Capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgages notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds, is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

2) Restricted for debt services – Net position restricted for debt service consists of restricted net assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

3) Restricted for other purposes – This restriction is imposed by the grantors and contributors.

4) Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

n. **Operating Revenues and Expenses** – The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with the rent of the and other

All current existing leases meet the criteria to be treated as operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease. Rent revenue is pledged as collateral as collateral for the repayment of the Authority's revenue bonds.

o. **Non-operating revenues** include activities that have the characteristic of non-exchange transactions that are defined as non-operating revenues by GASB Statement No.33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, such as state appropriations and investment income.

p. **Risk Financing-** The Authority carries commercial insurance to cover casualty, theft, claim and other loss. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the commonwealth.

q. **Reclassification of prior year presentation –** Certain reclassifications were made to the 2016 financial statements, in order to conform them to the current's presentation.

3. SIGNIFICANT DEPENDENCY ON COMMONWEALTH OF PUERTO RICO

Going Concern

As a part of its normal operating activities, and as disclosed in Notes 6, 11 and 16 to the basic financial statements, the Authority has significant balances and transactions with the Commonwealth of Puerto Rico (Commonwealth) and with the Government Development Bank for Puerto Rico (GDB). The Commonwealth and GDB face significant uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Because of these uncertainties, the amounts due from the Commonwealth, may not be collected in the near future, and the Authority's management is unable to determine when such amounts will be appropriated by the Legislature of the Commonwealth. Concurrently, these amounts due from Commonwealth are the sole source for the payment of the corresponding rent contracts charges to Commonwealth related entities and costs of certain construction projects that have been suspended or cancelled by Commonwealth, as disclosed in Note 6 and 11 to the basic financial statements.

GDB has traditionally served as a source of emergency liquidity to bridge the Commonwealth and its component units' deficits, but experienced its own liquidity constraints and was unable to continue serving in such role (refer to Note 25, Subsequent Events). Loan granted by GDB to the Commonwealth and its component unit constitute a significant portion of GDB's assets. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years.

On May 1, 2017, the stay under Title IV of Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA. Title lll of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title lll cases pursuant to PROMESA section 301(a). The Authority management's plan is to adhere to the Commonwealth Remediation Plan.

Remediation Plan – Commonwealth

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On October 23, 2018, the Oversight Board certified its own new fiscal plan for the Commonwealth (the Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

(i) *Human Capital and Welfare Reform*

(ii) *Ease of Doing Business Reform*

(iii) *Energy and Power Regulatory Reform*

(iv) *Infrastructure and Capital Investment Reform*

(v) *Establishment of the Office of the CFO*

(vi) *Agency Efficiency Measures*

(vii) *Healthcare Reform*

(viii) *Tax Compliance and Fees Enhancement*

(ix) *Reduction in UPR and Municipality Appropriations*

(x) *Pension Reform*

(xi) *Fiscal Controls and Transparency*

The Authority has evaluated the possible effects of the uncertainties and liquidity risks being faced by the Commonwealth and GDB, on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date.

4. RESULTS OF OPERATIONS

As of June 30, 2017 and 2016, the Authority has an accumulated deficit of $961.6 and $863.1 million, respectively. The Authority faces a number of challenges that are closely related to the Commonwealth's economic recession. During the current fiscal year, management continued its policy of strict fiscal and budgetary control and economic measures. In addition, the Authority intends to improve its government office facilities in other to retain existing tenants and attract new agencies and instrumentalities.

Rent receivable includes amount due by agencies and public corporations of the Commonwealths that are overdue. In addition, the Authority has a receivable, presented as due from Commonwealth, for costs incurred in the development of projects that were subsequently suspended. During the fiscal year 2016, $90.5 million was fully reserved as uncollectible. The inability of the Authority to collect the total amount due on time could result in adverse effect on the Authority's financial position and results of operations.

As result to the above, the Authority's deficit increased by $98.4 million during the year ended June 30, 2017 as compared with the restated increase of $570.4 million during the year ended June 30, 2016.

5. UNRESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Deposited in comercial banks:		
Cash in banks	$ 57,212,238	$ 10,250,116
Cerificates of deposits	1,457,123	1,448,716
Total depoited in comercial banks	58,669,361	11,698,832
Deposited in Government Development Bank of PR:		
Certificates of deposits	-	28,162,468
Custodial credit risk loss	-	(28,162,468)
Total cash and cash equivalents	$ 58,669,361	$ 11,698,832

Custodial Credit Risk Loss on Deposit with Governmental Development Bank

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described in note 3 to the financial statements. Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

The Commonwealth and its instrumentalities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

As a result, a custodial credit risk loss on unrestricted deposits held with GDB for $0.0 and $28.2 million of cash deposited as of June 30, 2017 and 2016, respectively.

6. RENT RECEIVABLE

This balance represents the amount due from Commonwealth agencies and instrumentalities determined in accordance with the corresponding rent contracts. Minimum lease rentals are approximately as follows:

Fiscal Year Ending June 30,		Amount
2018	$	423,694,740
2019		423,488,265
2020		429,372,861
2021		450,614,861
2022-2026		2,172,650,642
2027-2031		3,232,434,591
2031-2036		1,839,483,394
2037-2042		2,017,240,797

Lease rental agreements provide for rate revisions every July 1st based on, among other things, debt service requirements for the particular year.

The total amount of rent receivable includes approximately $45.0 million over one year old, $51.8 million over 2 years old and $91.4 million over 3 years old which are fully reserved under an estimated allowance for uncollectible accounts of approximately $191.7 million. The most significant amounts included in the above categories are amounts due from the Puerto Rico Department of Education, Courts Administration, Department of Correction, and the Cardiovascular Center, and the Police Department of the Commonwealth of Puerto Rico, amounting to approximately $249.0 million, $61.3 million, $31.4, $26.9, and $23.6 respectively.

Although the balance of rent receivable at June 30, 2017 and 2016 includes invoices that are overdue, and management has recorded and estimated allowance for uncollectible accounts during 2017 and 2016 as explained above, Law No. 97, Article 15, of May 15, 2006, establishes that any rent to be pay to the Authority during any fiscal year by any department, agency or public corporation of the Commonwealth under the conditions of a rental contract in accordance of the dispositions of Law No. 56 of June 19, 1958, as amended, the Commonwealth will advance to the Authority the amount not paid. This Law requires to the Secretary of Treasury Department to make an advance of any available funds committed by the full faith and credit of the Commonwealth. In case of the rent to be paid to the Authority by any municipality, this law requires to the Municipal Revenue Collection Center to make payments to the Authority from any property tax collection. There were no advances from the Commonwealth and the Revenue Collection Center during the years ended June 30, 2017 and 2016.

During the years ended June 30, 2017 and 2016, the Authority received payments from the Departments of Treasury in excess of the amounts owned by the Commonwealth agencies and instrumentalities in the amount of $1.0 and $2.2 million respectively. This amount is included as rent collected in advance in the accompanying statements of net position.

During the year ended June 30, 2017 and 2016, the Authority reduced the rent revenue by $50.9 and $222.5 million, respectively for uncollectible amounts.

7. OTHER RECEIVABLES

Other receivables consist of billings for miscellaneous services performed by the Authority and amounted to approximately $21.8 and $22.3 million for the years ended June 30, 2017 and 2016, respectively. The amount is presented in the accompanying statement of net position net of related allowance for uncollectible accounts amounting to $19.9 million at June 30, 2017 and 2016.

8. RESTRICTED CASH AND CASH EQUIVALENT

Restricted cash and cash equivalents at June 30, 2017 and 2016 consist of the following:

	2017	2016
Interest bearing cash accounts:		
Commercial bank	$ 4,492,977	$ 2,085,647
Government Development Bank of PR		12,427,834
Mutual funds	21,692,645	189,049,872
	26,185,623	203,563,353
Less: Custodial credi risk loss	-	(12,427,834)
Total restricted cash and cash equivalents	$ 26,185,623	$ 191,135,519

Continues

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These amounts are presented in the statements of net position as follows:

	2017	2016
Bond sinking funds	$ 4,492,977	$ 167,231,893
Cash to be deposited in bond sinking funds		834,145
Construction funds	21,692,645	32,226,552
Funds for construction of facilities for other government entities	-	3,270,763
	26,185,623	203,563,353
Less: Custodial credi risk loss	-	(12,427,834)
Total restricted cash and cash equivalents	$ 26,185,623	$ 191,135,519

a. Bond sinking funds - Bond sinking funds consist of monies deposited under Resolution No. 468 and consist of two (2) separate accounts designated as a "Bond Service Account" and a "Redemption Account". Revenues received from debt service rental with respect to facilities financed under Bond Resolution No. 468 are deposited with its respective fiscal agent for the credit as such accounts in the following order:

1) To the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest, which will become due and payable within the next ensuing six month of all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months; and

2) To the Redemption Account, in such amount as may be required to make the amount so deposited in the current fiscal year equal to the amortization requirements, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amounts of bonds should be redeemed on the next redemption date from monies in their Bond Sinking Fund.

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligation, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association; repurchase or reverse repurchase agreements or any other investment, which are rated in one of the three highest rating categories.

In July 2017, The Authority defaults its bond service payments and the insurer began covering the deficiencies. During year ended June 30, 2017, proceeds from insurer approximately $19.0 million.

b. Cash to be deposited in bond sinking funds – These funds represent the funds deposited to be transferred to the bond sinking fund accounts with the fiscal agents.

c. Construction Funds – These funds are used for the payment of all or any part of the remaining cost of the initial facilities, as defined, or for payment of all or any part of the cost to the Authority of any additional facilities or Improvements, are defined, in accordance with the Bonds resolutions. At June 30, 2017 and 2016, most of the funds deposited in the construction fund are restricted for the financing of Century 21st school program, as explained below, under School Renovation Funds.

9. DEPOSITS

The Authority is restricted by law to deposit funds only in institutions approved by the Commonwealth of Puerto Rico's Treasury Department, and such deposit are required to be kept in separate accounts in the name of the Authority.

The Authority is authorized to invest in Puerto Rico and U.S government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities. The Authority invests in certificates of deposit with financial institutions rated AA or AAA by Moody's Investor Services. Pursuant to the investment Guidelines for the Commonwealth, the Authority may invest in obligation of the Commonwealth, obligations of the United States, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, and / or interest-bearings time deposits, or other similar arrangements, as provide by the bond Resolutions.

Custodial Credit Risk- For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial bank's must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Authority's deposit at June 30, 2017 and 2016 amounts to $83.3 million and $15.7 million, respectively.

10. NOTE RECEIVABLE FROM OTHER GOVERNMENTAL AGENCY

The Authority entered into a note receivable agreement with the Institute of Technology in Ponce Puerto Rico for the payment of construction cost aggregating approximately $7.7 million. This amount will be collected in varying principal installments plus interest at 2.8% through fiscal year 2021.

Future estimated principal and interest collection during future years are as follows:

Year Ending June 30,	Principal	Interest
2018	$ 529,561	$ 51,585
2019	544,635	36,511
2020	560,137	21,009
2021	3,646,936	1,144,810
Total	$ **5,281,269**	$ **1,253,915**

11. TRANSACTIONS WITH COMMONWEALTH OF PUERTO RICO

a. **Rental Revenue and Receivable –** All rental revenues are from charges to the Commonwealth related entities and related rental receivable that are due by such entities.

b. **Contributions –** The Commonwealth, from time to time makes non-operating contributions to the Authority. Capital grants are restricted to finance investment in capital assets.

c. **Advances from Governmental Agencies for Construction of Agencies' Projects –** Represent unspent funds received from federal agencies and municipalities for the construction of projects. At June 30, 2017 and 2016 balance amounted to approximately $553,000 and $460,000, respectively.

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12. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016 was as follows:

	Year ended June 30, 2017				
	Balance June 30, 2016	Adjustments	Additions	Deductions or Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land	$ 129,569,461	$	$ -	-	$ 129,569,461
Construction in progress	62,091,446	(1,718,095)	-	(59,819,820)	553,531
Total capital assets not being depreciated	191,660,907	(1,718,095)	-	(59,819,820)	130,122,992
Capital assets being depreciated:					
Buildings	4,690,627,939	(534,877)	-	59,819,820	4,749,912,882
Equipment and vehicles	13,852,178	-	-	-	13,852,178
Total capital assets being depreciated	4,704,480,117	(534,877)	-	59,819,820	4,763,765,060
Less accumulated depreciation:					
Buildings	(1,376,496,399)	(472,000)	(92,363,843)	-	(1,469,332,242)
Equipment and vehicles	(10,508,908)	527,333	(505,364)	-	(10,486,939)
Total accumulated depreciation	(1,387,005,307)	55,333	(92,869,207)	-	(1,479,819,181)
Capital assets being depreciated, net	3,317,474,810	(479,544)	(92,869,207)	59,819,820	3,283,945,879
Capital assets, net	$ 3,509,135,717	$ (2,197,639)	$ (92,869,207)	$ -	$ 3,414,068,871

	Balance June 30, 2015	Adjustments	Additions	Deductions or Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land	$ 129,550,969	$ -	45,108	$ (26,616)	$ 129,569,461
Construction in progress	111,941,071	-	36,574,458	(86,424,083)	62,091,446
Total capital assets not being depreciated	241,492,040	-	36,619,566	(86,450,699)	191,660,907
Capital assets being depreciated:					
Buildings	4,624,682,349	-	86,424,083	(20,478,493)	4,690,627,939
Equipment and vehicles	14,830,134	-	9,342	(987,298)	13,852,178
Total capital assets being depreciated	4,639,512,483	-	86,433,425	(21,465,791)	4,704,480,117
Less accumulated depreciation:					
Buildings	(1,284,717,087)	-	(90,810,725)	(968,587)	(1,376,496,399)
Equipment and vehicles	(11,711,399)	-	(821,161)	2,023,652	(10,508,908)
Total accumulated depreciation	(1,296,428,486)	-	(91,631,886)	1,055,065	(1,387,005,307)
Capital assets being depreciated, net	3,343,083,997	-	(5,198,461)	(20,410,726)	3,317,474,810
Capital assets, net	$ 3,584,576,037	$ -	31,421,105	$ (106,861,425)	$ 3,509,135,717

a. Capitalized Interest and General Construction Expenses – The Authority capitalized to construction in progress during the fiscal years ended June 30, 2017 and 2016 interest for approximately $0.9 and $3.0 million, respectively. In addition, the Authority capitalized construction general expenses for approximately $2.9 million and $14,500 during the years ended June 30, 2017 and 2016, respectively.

b. 21st Century Schools Programs – Construction in progress at June 30, 2017 and 2016 includes $0.06 and $39.2 million, respectively, related to 21st Century Schools Program (the School Program). The program consists of remodeling of over 100 schools throughout Puerto Rico. To finance the program, the Authority issued government facilities revenue bonds in the amounts of $878 million during the year ended June 30, 2012 of which $10.7 and $15.7 million are deposited in construction funds at June 30, 2017 and 2016, respectively.

The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the commonwealth. To serve as construction manager. Under the contract, AFI is responsible for the management of the program including among others, contracting general contractors and or subcontractors, inspection, supervision and acceptance of the remodeled schools and in certain cases provides maintenance to the schools. AFI bills the Authority the cost of the program plus an agreed administrative fee. Certain of the schools under the program are property of the Department of Transportation and Public Works (DTOP), an agency of the Commonwealth. The Authority leases such schools from DTOP for a minimum rent of $10 per year. When the Improvements of such schools are completed, the Authority will bill rent to the Department of Education of the Commonwealth for the payment of the debt service of the bonds issued under forbearance.

13. LAND AND BUILDING UNDER CONSTRUCTION FOR OTHER GOVERNMENTAL AGENCIES

The Authority did not have any activity related to land and building under construction for other governmental agencies for the year ended June 30, 2017. Activity in land and building under construction for other governmental agencies for the year ended June 30, 2017 is as follows:

	Year Ended June 30, 2017			
	Balance at beginning	Increase	Decreases	Balance at End of Year
Construction in progress	$ 460,329	$ 458,621	$ 365,419	$ 553,531

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14. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at June 30, 2017 and 2016 consists of the following:

	2017	2016
Amount payable from unrestricyed assets:		
Puerto Rico Electric Power Authority	$ 2,431,025	$ 3,045,360
Puerto Rico Acueduct and Sewer Authority	370,488	392,336
Employees's Retirement System	8,267,446	3,458,352
General Services Administration	247,201	138,089
Commonwealth of Puerto Rico	2,388,511	2,388,511
Other	132,813	123,849
Total payable for unrestricted assets	$ 13,837,484	$ 9,546,497
Amount payable from restricted assets:		
Puerto Rico Infraestructure Finincing Authority	$ 2,023,050	$ 3,213,227

Of the intergovernmental payables from unrestricted assets, $11.5 million are included in accounts payable balance as of June 30, 2017.

15. BORROWING UNDER LINES OF CREDIT

The activity under the line of credit agreements during the fiscal years ended June 30, 2017 and 2016 is a follow:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2017	Current Portion
Lines of Credits used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	117,441,291		-	117,441,291	-
Total	$ 182,160,107	$ -	$ -	$ 182,160,107	$ -

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2016	Current Portion
Lines of Credits used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	113,465,039	3,976,252		117,441,291	
Total	$ 178,183,855	$ 3,976,252	$ -	$ 182,160,107	$ -

During fiscal year 2008, the Authority executed two lines of credit agreements with GDB for the interim financing of its capital improvement program in an amount not to exceed $226 million, bearing interest at a variable rate of 1.50% over prime rate or at such other variable lines as determined by GDB but not less than 6.0%. The lines are due on June 30, 2044 and will be payable from the proceeds of the future revenue refunding bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately $66.4 million at June 30, 2017 and 2016.

The Authority maintained an operating line of credit with GDB in which the Authority could borrow up to $75 million, bearing interest at 150 basis point over three-month LIBOR but not less than 5% at any time (7% at June 30, 2017 and 2016). The proceeds from this line were used to finance the Authority's operational expenses for the year ended June 30, 2006. Payments of principal and interest will be from annual appropriations from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of the Resolution No. 387 of December 21, 2005. The line is due on June 30, 2018. No payments were made for principal and interest amount during the years ended June 30, 2017 and 2016. Balance outstanding under this line of credit amounted to approximately and $64.7 million at June 30, 2017 and 2016.

During fiscal year 2010, the Authority executed lines of credits agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $93.6 million, bearings interest at a variable rate of 1.50% over prime rate or at such other variable rate as determined by GDB but not less than 6% at any time (6% at June 30, 2016 and 2015). The lines are due on June 30, 2044 and will be payable from the proceeds of the future Revenue Refunding Bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately $51.0 million at June 30, 2017 and 2016.

Total interest expense charged by GDB under the above lines of credit agreements amounts to approximately $11.5 million during the years ended June 30, 2017 and 2016.

16. BONDS PAYABLE

Bonds payable at June 30, 2017 and 2016 consist of:

	2017	2016
Office Buildings Bond:		
Term bonds maturing through 2021 with interest rates ranging from 5.5% to 6.0%	$ 37,315,000	$ 37,315,000
Government Facilities Revenue Bonds:		
Serial bonds maturing through 2027, with interest rates ranging from 3.0% to 6.75%	1,579,048,977	1,651,092,000
Term bonds maturing through 2042, with interest rates ranging from 3.0% to 7.0%	2,354,945,000	2,354,945,000
Capital Appreciation bonds, maturing through 2031, with interest rate a 5.45%	22,610,000	22,610,000
Total government facilities revenue bonds	3,956,603,977	4,028,647,000
Subrogated principal paid by monoline insurers	10,086,227	-
Total bonds outstanding	4,004,005,204	4,065,962,000
Add (Deduct):		
Bond discount	(23,895,256)	(25,246,415)
Bond premium	28,293,541	32,598,038
Bonds payable, net	4,008,403,489	4,073,313,623
Less current portion	100,991,226	86,125,000
Bonds Payable	$ **3,907,412,263**	$ **3,987,188,623**

Aggregate maturities of sinking funds' amortization requirements on bonds, (excluding discounts and premiums), accreted value on bonds and related interest payment in future years are as follows:

Year Ending June 30,	Principal	Interest
2018	$ 100,991,226	$ 181,632,621
2019	66,235,000	205,973,886
2020	69,645,000	201,710,005
2021	74,140,000	202,923,303
2022	99,560,000	197,709,522
2023 - 2027	507,165,000	899,630,030
2028 - 2032	1,430,981,000	1,026,454,873
2033 - 2037	725,715,000	344,364,779
2038 - 2043	924,460,925	149,683,200
Total	**$ 3,998,893,151**	**$ 3,410,082,219**

The full faith and credit of the Commonwealth is pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds was further supported by the guaranty of the Commonwealth under which the Commonwealth pledged to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may have been be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding $4,721 million.

The Authority bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Services of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2017 and 2016.

The Authority's bonds payable include certain restrictive covenants. At June 30, 2017 and 2016, the Authority was not in compliance with such covenants due to financial constrains carried by the Commonwealth of Puerto Rico.

During the year ended June 30, 2017, monoline insurers of the Authority's bonds made principal and interest payments of approximately $10.1 and $9.0 million, respectively. The monoline insurance policies include express subrogation rights that are limited to the amount actually paid for each of the missed payments of the insured bonds. Although a monoline insurance policy does not contain express subrogation rights and another states subrogation rights broadly, applicable non-bankruptcy law would limit these monoline insurers' rights to reimbursements of the actual amount paid to holders of insured bonds. In addition, for any insured bonds issued by a debtor under Title III of PROMESA, the monoline insurers' claims for repayment will be treated the same as any other insured bond claim under any confirmed Title III plan of adjustment, such that the monoline insurers' may not recover the full amount paid.

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The activity of bonds payable during the fiscal years ended June 30, 2017 and 2016 are as follows:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Increase	Payments/ Decreases	Balance June 30, 2017	Current Portion
Office Building Bonds					
Terms bonds	$ 37,315,000	-	$ -	$ 37,315,000	$ 8,965,000
Government Facilities:					
Revenue bonds	-	-		-	
Serial bonds	1,651,092,000	-	(71,467,134)	1,579,624,866	81,940,000
Term bonds	2,354,945,000	-		2,354,945,000	-
Capital apreciation bonds	22,610,000	-		22,610,000	-
Subrogated principal paid by monoline insurer	-	10,086,227	-	10,086,227	10,086,226
Total	$ 4,065,962,000	$ 10,086,227	$ (71,467,134)	$ 4,004,581,093	$ 100,991,226
Total bonds outstanding	$ 4,065,962,000	$ 10,086,227	$ (71,467,134)	$ 4,004,581,093	$ 100,991,226
Add (deduct):					
Bond discounts	(25,246,416)	-	1,351,160	(23,895,256)	-
Bond premiums	32,598,039	-	(4,304,498)	28,293,541	-
Bonds payable, net	$ **4,073,313,623**	$ **10,086,227**	$ **(74,420,472)**	$ **4,008,979,378**	$ **100,991,226**

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Increase	Payments/ Decreases	Balance June 30, 2016	Current Portion
Office Building Bonds					
Terms bonds	$ 37,315,000	$ -	$ -	$ 37,315,000	$ -
Government Facilities:					
Revenue bonds	-	-	-	-	-
Serial bonds	1,733,092,000	-	(82,000,000)	1,651,092,000	86,125,000
Term bonds	2,354,945,000	-	-	2,354,945,000	-
Capital apreciation bonds	22,610,000	-	-	22,610,000	-
Total	4,110,647,000	-	(82,000,000)	4,028,647,000	# 86,125,000
Total bonds outstanding	4,147,962,000	$ -	$ (82,000,000)	$ 4,065,962,000	$ 86,125,000
Add (deduct):					
Bond discounts	(26,597,576)	-	1,351,160	(25,246,416)	-
Bond premiums	37,667,809	-	(5,069,770)	32,598,039	-
Bonds payable, net	$ **4,159,032,233**	$ **-**	$ **(85,718,610)**	$ **4,073,313,623**	$ **86,125,000**

The bonds payable due on July 1, 2016 was $86,125,000 principal and $100,865,721 interest, for a total payment due of $186,990,721. The payment made by the Authority was $161,717,658. The Authority default of this payment was $25,273,063. Of this amount, the monoline insurers' paid $10,086,277 by October 2016. In January, 2017, the monoline insurers' paid approximately $9 million in interest.

The Authority has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on its debts. Defeased debt, in-substance, and the related assets placed in trust to repay the debt are no longer reported on the face of the financial statements, in accordance with GASB Statement No. 86, Certain Debt

Extinguishment Issues. As June 30, 2017 and 2016, the outstanding balance of defeased bonds was approximately $659.9 and $660 million, respectively.

17. OTHER LONG-TERM LIABILITIES

Other long-term liabilities at June 30, 2017 and 2016 consist of:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Increase	Decreases	Balance June 30, 2017	Current Portion
Advances from other governmental agencies	$ 460,329	$ 458,621	$ (365,419)	$ 553,531	$ -
Compesated absences	13,074,142	24,195	(593,245)	12,505,092	3,999,779
Accrued Legal Contingencies	17,857,514	-	(13,080,762)	4,776,752	134,695
Other post-employment benefits	15,888,446	402,805	-	16,291,251	400,765
Voluntary Termination Benefits	4,749,132	25,780,576	(5,973,098)	24,556,611	6,301,591
Total	$ 52,029,563	$ 26,666,197	$ (20,012,524)	$ 58,683,237	$ 10,836,830

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Increase	Decreases	Balance June 30, 2016	Current Portion
Advances from other governmental agencies	$ 460,329	$ -	$ -	$ 460,329	$ -
Compesated absences	11,368,578	7,833,309	(6,127,745)	13,074,142	7,833,309
Accrued Legal Contingencies	17,048,154	1,761,143	(951,783)	17,857,514	480,724
Other post-employment benefits	14,143,473	2,269,042	(524,069)	15,888,446	390,278
Voluntary Termination Benefits	6,510,778	130,560	(1,892,206)	4,749,132	1,595,085
Total	$ 49,531,312	$ 11,994,054	$ (9,495,803)	$ 52,029,563	$ 10,299,396

a. **Advances from Other Governmental Entities** – This amount represents the balance of the amount advanced by the other governmental entities, mainly for the construction of facilities that will be owned by these entities. These projects include appropriations from the Commonwealth to finance the construction of facilities by these agencies, which in turn request the Authority to carry out the construction and the administration progress. Upon acceptable of completion, the project is completed and is taken over by the corresponding agency. The assets are not owned by the Authority.

b. **Compensated absences** – Employees earn annual vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment. Maximum permissible accumulation for sick leave is 90 days for all employees. The Authority records as a liability and as expense the vested accumulated vacation and sick leave and benefits accrue to employees. The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as non-current liabilities.

c. **Accrued Legal Contingencies –** This amount represents the Authority's estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based on the advice and consent of the Authority's legal division and external legal advisors. Actual to be settled may be materially difference from the amount accrued.

d. **Other Post-Employment Benefits –** This amount represents the Authority's liability for its retirement health care benefits under the Healthcare Benefit Plan to Retirees as further described in Note 20.

e. **Voluntary Termination Benefits –** This amount represents the Authority's liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees as further explained in Note 21.

18. DUE TO CONTRACTORS

This amount represents the remaining balance due to contractor for projects under construction. Normally, the contractor submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

19. PENSION PLAN

(a) General Information about the Pension Plan

The Authority participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a cost sharing multiple-employer retirement plan, which covers only eligible full-time employees. The ERS was created by Act No. 447 of May 15, 1951 and provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

The ERS administers different benefits structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000program) and a contributory hybrid program. Benefit provisions may vary depending on a member's date of hire.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by Legislature with Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a

comprehensive reform of the ERS. The Commonwealth does not guarantee benefits at retirement age.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013 and former employees who participated in the defined benefit program and the System 2000 program and were rehired on or after July 1, 2013 become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

Benefits Provided – An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30,2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

   If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social

Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service

includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

   If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

   For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

Contributions

The contribution requirement to the ERS is established by Commonwealth law and is not actuarially determined. The following are the member and employer contributions:

1) *Member Contributions*

   Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

2) *Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)*

   Effective July 1, 2011, employer contributions are 9.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

3) *Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)*

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 (of which $800 corresponds to the pension plan and $1,200 corresponds to the post employment healthcare benefits plan) each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

4) *Additional Uniform Contribution (Act No. 32, as Amended)*

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014-2016 was $120 million, payable at end of each fiscal year. The additional uniform contribution determined for fiscal year 2016-2017 was $596 million, payable at the end of the fiscal year. The additional uniform contribution was eliminated in June 2017.

Additional information of the ERS is provided in its financial statements for the year ended June 30, 2017 a copy of which can be obtained from the Administrator of the Retirement Systems of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan, Puerto Rico 00949.

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Authority recorded a liability of $444,525,548 for our proportionate share of the net pension liability. The net pension liability for the plan in total was measured as of June 30, 2016 and determined by an actuarial valuation as of that date. The Authority's proportionate share of the total net pension liability was based on the ratio of our actual contributions of $9,890,191 paid to ERS for the year ended June 30, 2016 relative to the actual contributions of $779,477,001 from all participating employers. At June 30, 2016, the Authority's proportionate share was 1.179% which increased 0.037% when compared to the proportional share as of June 30, 2015 of 1.142%

For the year ended June 30, 2017, the Authority recognized pension expense of $39,302,004.

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources related to ERS pension benefits:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance of deferred outflows and inflows due to:		
Difference between expected and actual experience	$ 363,435	$ 6,102,635
Changes of assumptions	67,803,860	
Net difference between projected and actual earnings on pension plan investments	-	2,405,256
Changes in proportion and differences between employer contributions and proportionate share of contributions	30,958,082	-
Employer contributions subsequent to the measurement date	16,705,494	-
	$ 115,830,871	$ 8,507,891

$16,705,494 reported as deferred outflows of resources to pensions resulting from contribution subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as collective deferred (inflows) / outflows of resources to be recognized in pension expense:

Year Ending June 30:	
2018	$ 19,483,985
2019	19,483,985
2020	20,336,630
2021	20,555,490
2022	10,757,396
Thereafter	—
	$ 90,617,486

(c) Actuarial Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Significant actuarial assumptions and other inputs used to measure the total pension liability:

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Measurement Date	June 30, 2016
Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	2.50%
Total Payroll Growth	
Future Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66 and the current general economy.
Cost-of-Living Increases	
Mortality Assumption	Pre-retirement Mortality: For members covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for male and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year, and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after measurement date. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for helthy retirees and benifeciaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Tables for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. As a generational table, it reflects mortality improvements both before and after measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

(d) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The June 30, 2016 actuarial valuation for ERS reflects an increase of approximately $3.9 billion in the total pension liability because of the changes in assumptions related to the change in the discount rate as required by GASB Statement No. 67 and an decrease of approximately $250 million in the total pension liability because of differences between expected and actual experience. With the enactment of Act No. 3 of 2013, termination, retirement and disability rates were added for new Act No. 3 members. Also, the compensation increase assumption was revised due to Act No. 66 of 2014.

(e) Long-term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation portfolio that was adopted by the ER'S Board during December 2013 and the actuary's capital market assumptions as of June 30, 2016. The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and estimates of expected rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

	Traget Allocation	**Long-term expected rate of return**
Asset Class:		
Domestic equity	25 %	6.4 %
International equity	10	6.7
Fixed income	64	6.3
Cash	1	3.0
Total	100 %	

(f) Date of Depletion and Discount Rate

The asset basis for the depletion projection is the ERS Fiduciary net position. On this basis, the ERS fiduciary net position became negative in fiscal year 2015 and accordingly no projection of date of depletion is needed. The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

The discount rate used to measure the ERS total pension liability was 2.85%.

(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority as of June 30, 2016, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.85%) or 1-percentage point higher (3.85%) than current rate:

		At 1% decrease (1.85%)	At current discount rate (2.85%)	At 1% increase (3.85%)
Net pension liability	$	508,373,225	443,235,167	170,571,815

20. OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits other than Pensions. This Statement replaces the requirement of Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployments Benefits Other Than Pensions" (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense / expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state, and local governmental employers.

OPEB are part of an exchange of salaries and benefits for employee service rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial report to reflect systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB, and whether and to what extent progress is being made in funding the funding the plan.

a. **Plan Description –** The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees (the Plan) pursuant to collective bargain agreements. The Plan is administered by the Authority. Benefits consist of a maximum monthly payment (annuity) to cover medical expenses.

   Based on the Plan's features and functionally, and for the purpose of the actuarial valuation, it has been identified as a single – employer defined benefit healthcare plan. Participant groups covered are employees under Collective Labor Agreement with "Union Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), and the Authority's management employees.

   All employees with at least 10 years of rendered services within the Authority are eligible for the healthcare benefit upon retirement age. Normal retirement is as follows:

   - For employees that were employed by the Authority at March 30, 1990 the retirement is at 30 years of service.

   - For employees that were employed by the Authority after Match 30, 1990 the retirement is at 10 years of service and 65 years old.

The benefit is paid in case of permanent disability of the retiree until death. Also, the benefit is paid in case an active employee gets disable until death. The obligation end in case of death after retirement.

b. Description of The Other Postemployment Benefits Provided – In addition to providing the pension benefits, the Authority provides a defined dollar contribution to partially cover medical insurance cost to eligible retired employees. The Authority's contribution is limited to $200 monthly per single retired employees up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the collective bargain agreement and will be re-evaluated when the collective bargain agreements are up for renewal. Under this level of benefits provided, the medical cost increases reside with the retiree and, therefore, results in a lower OPEB liability for the Authority.

c. Membership – As of June 30, 2017 and 2016, the number of active employees and retirees amounted to 1,378 and 1,449, respectively.

d. Funding policy – The obligation of the plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Authority currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The cost of administering the plan are paid by the Authority.

e. Annual OPEB cost and net OPEB obligation – The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in the plan with more than one hundred total plan members.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceeded thirty years.

The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2017 and 2016:

OPEB Obligation

The net OPEB obligation change for the years ended June 30, 2017 and 2016 is as following:

	2017	2016
Normal OPEB obligation at beginning of year	$ 15,888,446	$ 14,143,473
Total annual OPEB costs	1,174,607	2,269,042
Actuarial change in estimate	(618,748)	-
Actuarial benefits payments	(153,054)	(524,069)
OPEB liability	$ 16,291,251	$ 15,888,446

Components of OPEB costs during the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Annual required contribution (ARC) for the fiscal year	$ -	$ 3,193,225
Service Cost	895,113	-
Actuarial change in estimate	25,888	-
Interest or net OPEB obligation	520,844	413,100
ARC amortization adjustment	(267,238)	(1,860,675)
Total annual OPEB Costs	$ 1,174,607	$ 1,745,650
Actuarial discount rate	3.60%	2.60%

As of June 30, 2017 and 2016, the total aggregate amount of actuarial accrued liability for benefits was $16.2 and $20.3 million, respectively, all of which was unfunded. The covered payroll (annual payroll of actives employees covered by the plan) was approximately $53.3 and $49.9 million during the fiscal years ended June 30, 2017 and 2016, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.3% and 40.6%, respectively. The Authority's annual required contributions were $0.0 and $2.9 million during the years ended June 30, 2017 and 2016, as required by GASB Statement Nos. 75 and 45, respectively.

The projection of future benefit payment for an ongoing plan involves estimates of the value of reported amount and assumption about the probability of occurrence of events far into the future. Examples include assumption about the future employment, mortality, and the healthcare costs trend. Amount determined regarding the funded status of the plan and annual required contribution of the employer are subject to continuous revision as actual results are compare with past expectations and new estimates are made about the future.

f. **Methods and Assumptions-** Projections of benefits for financial reporting purposes are based on the plan and includes the types of benefits provided at the time of valuation and the historical pattern of benefit cost paid by the employer to date. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The amortization method of the initial unfunded actuarial of accrued liability is the level dollar for a period of 15 years. The amortization method for the gain or loss is the level dollar for a period of 15 years closed. The valuation date was July 1, 2016 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumption supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 2.6% was used. This rate is the best actuarial estimate of expected long-term experience.

The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

21. VOLUNTARY TERMINATION BENEFITS

ON July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provided benefits for early retirements or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 was a voluntary selection for the public corporations, such as the Authority, and established that early retirement benefits will be provide to eligible employees that have completed between 20 to 29 years of credited service in the Retirement System, between 48 and 55 years to age, and will consist of biweekly benefits of a 50% of each employee' salary, as defined. In this early retirement benefits program, The Authority will make the employee and the employer contribution to retirement system and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the retirement system. Economic incentives are available to eligible employees who have a least 30 year of credited service in the retirement System who have attained the age for retirement. Economic incentives will consist of a lump-sum payment of six months of salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited services in the retirement system and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement system for five years period. Additionally, eligible employees that choose to participate in the early retirement

benefit program or that choose the economic incentive and have at least 20 years of credited services in the retirement system are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $16.3 and $15.8 million in the balance sheets as June 30, 2017 and 2016, respectively, and a charge of approximately $.5 and $1.7 thousand in the statement of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, unpaid long-term benefit granted on this program were discounted at 3.60% depending on the employee voluntary termination benefits selected.

22. COMMITMENTS AND CONTINGENT LIABILITIES

a. **Construction –** the Authority has entered into various contracts with outside contractors for the construction of building and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The Authority has an agreement with AFI related to the construction and improvement to public schools on the 21st Century Program. All construction work in progress were completed during the year ended June 30, 2017.

b. **Litigation –** The Authority is defendant or co-defendant in various lawsuits for alleged damage and breach of contracts in cases related to construction projects. In addition, The Authority is defendant or co-defendant in other cases related to public liability and labor related matters. Some of the legal cases related to public liability are covered by insurance.

   The Authority, based on legal advice, recorded an adequate provision to cover probable losses on the claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or result of operations.

c. **Environmental –** During 2012, the Authority identified asbestos in the Central Offices building in Minillas, Santurce, Puerto Rico. Asbestos removal cost was estimated based on environmental engineers' consultant survey. As a result, during the year ended June 30, 2012, the Authority recorded a liability of $2 million for the estimated cost of the removal. During the year ended June 30, 2015, most of the asbestos removal process was completed at a total cost very similar to the total provision recorded in 2012. The Authority has contracted environmental engineers to determine if asbestos exists in other of the Authority's properties. At June 30, 2017, no other property has been identified, therefore, no additional reserve for any future potential liability has been recorded.

23. RESTATEMENT

During the year ended June 30, 2017, management restated prior year's financial statements to implement and establish the beginning balances of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. The restatement includes the initial balance of net pension liability, deferred outflows of resources, and its contributions subsequent to measurement date from fiscal year 2017, and deferred inflows of resources.

The following table summarizes changes to net position at the beginning of the year as previously reported in the statement of Revenues, Expenses and Changes in Net Position.

	2015	2016	2017 Total Net Deficit
Net deficit at beginning of year as previous reported	$ (292,714,356)	$ (548,531,664)	$ (548,531,664)
Restatement adjustment -			
Understatement of Deferred outflows related to pension plan	32,058,291	36,104,265	68,162,556
Understatement of Deferred inflows related to pension plan	(2,053,700)	-	(2,053,700)
Understatement of net pension liability	(325,040,822)	(55,674,092)	(380,714,914)
Understatement of pension expense	11,075,554	19,569,827	30,645,381
Net deficit at beginning of year, as restated	$ (576,675,033)	$ (548,531,664)	$ (832,492,341)

24. REISSUANCE OF FINANCIAL STATEMENT

As management of the Public Buildings Authority ("the Authority"), we reissued the financial statements issued on June 24, 2019, because we subsequently discovered that the agreements with monoline insurers of our bonds contain subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and we are recognizing such liability. Refer to Note 16. Bonds Payable.

Further, management re-evaluated the impact as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. The impact presented in the financial statements issued June 24, 2019 reduced the line of credit due GDB and recognized non-operating income from other contributions from the Commonwealth of Puerto Rico by approximately $40.0 million. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, below.

25. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 18, 2020, which is the date the financial statements were available to be issued. The subsequent events disclosed are principally those which management believes are of sufficient public interest for disclosure.

A. Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Puerto Rico Fiscal Responsibility and Financial Emergency Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the System.

Under these executive orders, certain Commonwealth entities have: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at the Government Development Bank for Puerto Rico (GDB) and suspended the disbursement of loans by GDB. These executive orders restricted the System's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also suspended the obligation of the Commonwealth to transfer certain revenues previously allocated to the System.

On January 2, 2017, the Governor signed into law Act No. 2 of 2017, which amended the Moratorium Act to, among other things, create the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities. FAFAA was also assigned the tasks of overseeing matters related to the restructuring and adjustment of the Commonwealth's financial liabilities (including the Authority), coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant to PROMESA.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, Act No. 5), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Under Act No. 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act No. 5 will expire December 31, 2019, unless extended by the Governor. Some additional powers provided to the Governor through Act No. 5 include the authority to: (i) exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

B. Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, the President of the United States signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities, including the Authority, with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust sustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

Title III of PROMESA established an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the Bankruptcy Code. In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a "covered entity"; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) "desire[] to effect a plan to adjust its debts." PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. See PROMESA § 304(a). As of the date hereof, the Oversight Board, at the request of the Governor, has commenced Title III cases for the Commonwealth and the Authority, among others.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. See PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III case. PROMESA also provides that the commencement of a Title III case "does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality." PROMESA § 303.

A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file a plan of adjustment. See PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

Title IV of PROMESA established the Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions. Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV stay) from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017, of all "Liability Claim" litigation

commenced against the Commonwealth and its instrumentalities after December 18, 2015. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking relief from the Title IV Stay upon "cause shown." PROMESA § 405(e).

C. Commencement of the Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities (including the Authority) to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with the System's creditors, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the System by filing a petition for relief under Title III of PROMESA in the Title III Court. On that same day, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Highways and Transportation Authority (PRHTA) by filing a similar petition for relief under Title II of PROMESA in the Title III Court. On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Electric Power Authority (PREPA) by filing a similar petition for relief under Title III of PROMESA in the Title III Court. On September 27, 2019, the Oversight Board commenced a Title III case for the Authority by filing a similar petition for relief under Title III of PROMESA in the Title III Court. As such, the Authority is a debtor in a proceeding pursuant to Title III of PROMESA.

All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the Title III Court. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees (the Retiree Committee) in the Commonwealth's Title III cases and appointed an Official Committee of Unsecured Creditors for all Title III debtors other than COFINA (the Creditors' Committee).

The System's Title III case was commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Authority's Title III case pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Authority's Title III case, the Title III Stay immediately went into effect to stay creditor litigation. All claims against the Authority

that arose before the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III.

D. Key Title III Litigation

Appointments Clause Litigation

On August 7, 2017, a group of the Commonwealth's general obligation bondholders led by Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, and Lex Claims, LLC (collectively, Aurelius) filed a motion to dismiss the Title III petitions. In the motion, Aurelius argued that the appointment of the Oversight Board members violated the "Appointments Clause" of the United States Constitution, which requires that "principal officers" of the United States be appointed by the President and confirmed by the Senate. The Title III Court denied Aurelius' motion to dismiss, and Aurelius appealed to the United States Court of Appeals for the First Circuit. On February 15, 2019, the First Circuit reversed the Title III Court, holding that the Oversight Board members' appointment process violated the Appointments Clause. The First Circuit stayed its ruling for 90 days to allow the President and Senate to appoint the Oversight Board in accordance with the Constitution. It also expressly validated all of the Oversight Board's past actions, including any actions taken by the Oversight Board during the 90-day stay period.

On April 23, 2019, the Oversight Board appealed the First Circuit's decision to the United States Supreme Court by filing its petition for a writ of certiorari. The following day, the Oversight Board filed a motion in the First Circuit requesting an extension of the 90-day stay of its February 15 decision until the Supreme Court's final disposition of the case. On May 6, 2019, the First Circuit granted in part the Oversight Board's extension motion by extending the stay of its February 15 decision until July 15, 2019, but denied the request to extend the stay indefinitely until the Supreme Court's final disposition of the case. On June 20, 2019, the United States Supreme Court granted the Oversight Board's petition for a writ of certiorari and stayed the First Circuit decision pending its final determination. Oral argument on the appeal was heard before the United States Supreme Court on October 15, 2019.

The Fin. Oversight and Mgmt. Bd. for Puerto Rico v. Puerto Rico Public Building Auth., Case No. 18-00149-LTS (D.P.R. Dec. 21, 2018).

On December 21, 2018, the Oversight Board and the Creditors' Committee filed an adversary proceeding against the Authority seeking declaratory relief and disallowance of administrative rent claims, alleging that the Authority leases are not true leases, but rather "disguised financing transactions." Multiple parties have filed motions to intervene. On January 28, 2019, the Authority responded to the complaint. On June 27, 2019, the Oversight Board filed a motion to stay this adversary proceeding pending confirmation of the Commonwealth's Title III plan of adjustment. A hearing on the stay motion was held before the Title III Court on July

24, 2019, but determination of the motion remains pending.

On September 27, 2019, the Financial Oversight and Management Board filed Title III Petition for Covered Territory or Covered Instrumentality to include the Authority.

E. PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (PayGo) system. With the start of fiscal year 2018, employers’ contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act 106-2017, which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to the System’s governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the System’s board of trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing both the System and JRS.

Act 106-2017 terminated the previously existing pension programs for the System participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contributions program. The System’ active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System’s loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board’s discretion, the administration of the System benefits may be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

On May 17, 2019, the Legislature passed Act No. 29 of 2019 (Act 29-2019), which addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligation to make PayGo payments to the Commonwealth under Act 1062017. On July 3, 2019, the Oversight Board filed a complaint against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 292019, which eliminated the obligation of municipalities to make PayGo payments to the Commonwealth, and various joint resolutions because (i) Act 29 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c);

Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and
the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

On July 15, 2019, the Governor and FAFAA moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety. On September 10, 2019, the Governor and FAFAA answered the complaint. This case is currently in its early stage and the Title III Court has not yet made a final determination on the merits.

F. Installment Agreements with Employees' Retirement System of the Commonwealth of Puerto Rico

The Authority had a debt with the Employees' Retirement System due to special laws approved during 2016-2017, uniform additional contribution, and interests, amounting to $12.1 million as of December 23, 2016. On January 4, 2017 the Executive Director signed an installment agreement in order to pay the whole debt. The installment agreement gave the opportunity to the Authority to pay the overdue debts and still paying the current remittances. The Authority paid a down payment, six fix installments and a final lump sum of $8,267,446 in July 18, 2017 taking advantage of the clause that allow to make additional payments and pay off debt in advance, in order to get zero balance due before the change in the method.

On August 10, 2017 the Governor Ricardo Rosselló Nevares signed legislation that established a new defined contribution plan for active workers and new hires to be administered by a third-party provider and fund existing pension obligations on a "pay-as-you-go" basis, which means the government will pay benefits to retirees directly as they come due, rather than attempting to pre-fund future benefits via a retirement system's investment fund. Enrolling both active employees and newly hired workers in a true defined contribution retirement system. The Authority adopted the "pay-as-you-go" system and accrued the total amount of the debt in a payable account and paid the required amounts to the Puerto Rico Department of Treasury.

G. Catastrophe Events

On September 20, 2017, the island of Puerto Rico was devastated by hurricane Maria. The hurricane caused catastrophic destruction in Puerto Rico, including severe damages to the electric power system, and left the island completely without power.

The Authority received advance recovery proceeds from the insurance company of $35 million from October 2017 to August 2018. From April 2018 to May 2019, the Authority received $7.6 million from Federal Emergency Management Agency (FEMA) as reimbursements for expenses paid by the Authority related to damages caused by hurricane Maria.

Further, since December 28, 2019, the southwest portion of the island was impacted by a series of earthquakes, with the most powerful, a 6.4, on January 7, 2020. Several buildings were affected, and the Authority is evaluating the damages.

Furthermore, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and Puerto Rico. As a result, and in response to the executive orders of the President of the United States and the Governor of the Commonwealth of Puerto Rico, executive orders: Families First Coronavirus Response Act (“FFCRA”), and Implementation of the Necessary Closings of Private and Government Operations to Combat the Effects and Spread of COVID-19 in the Island of Puerto Rico, issued on March 18, 2020 and March 15, 2020, respectively, and their amendments; we have temporarily closed our operating locations, reduced operating hours, and have seen a reduction in citizen traffic, all resulting in a negative impact to Puerto Rico’s government and private operations. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while we expect this matter to negatively impact our results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

H. GDB Qualifying Modification and Title VI Approval Process

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

On August 24, 2017, the Governor signed into law Act No. 109, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), which effectuated the GDB Fiscal Plan and provided a path for the implementation of a restructuring support agreement between GDB and certain of its key creditor constituencies by addressing the claims of the Commonwealth and its instrumentalities against GDB. The GDB Restructuring Act created two special purpose entities—the GDB Debt Recovery Authority and the PET—into which the GDB would divide and irrevocably transfer its assets. Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The assets of the PET (the PET Assets) consist of among other items, a claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth case pending under Title III of PROMESA. The Authority's recovery on account of its interest in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification (except for as set forth therein), and GDB has reduced the amount of any allowed claim against the Commonwealth it may receive as set forth in such Qualifying Modification.

On November 6, 2018, the District Court approved GDB's Qualifying Modification under Title VI of PROMESA and the Qualifying Modification became effective as of November 29, 2018.

I. Former Governor Rosselló's Resignation and Government Transition under Governor Vázquez

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and, as of the date of these financial statements, currently serves as the Governor of the Commonwealth.

J. Oversight Board Files Joint Plan of Adjustment for the Commonwealth, the System, and the Authority

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, the System, and PBA in their respective Title III cases—filed a joint Title III plan of adjustment for the Commonwealth, the System and PBA [ECF No. 8765] (the Joint Plan) along with a disclosure statement related thereto [ECF No. 8766] (the Disclosure Statement). In general terms, the Joint Plan proposes a restructuring of the Commonwealth's debts by, among other things:

- reducing the Commonwealth's liabilities from approximately $35 billion to approximately $12 billion;
- reducing unchallenged GO bond claims by 36%;
- allowing local bondholders to elect to receive taxable bonds with monthly interest payments in exchange for their claims;
- setting challenged GO bond and Commonwealth guaranteed claims with reductions between 55% (for 2012 GO bonds) and 65% (for 2014 GO bonds);
- reducing the System's bonds by 87%;
- reducing unchallenged Authority bonds by 28%; and
- reducing challenged Authority bonds by 42%.

In addition, the Joint Plan and Disclosure Statement contemplates an 8.5% pension cut across all of the Retirement Systems, including the System. However, if confirmed, the Joint Plan's pension cut formula would not apply to beneficiaries receiving monthly benefits of $1,200 or less. For further information on the proposed terms of the pension cut, please refer to the publically available Disclosure Statement available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

According to the Joint Plan and Disclosure Statement, the Joint Plan also contemplates establishing a pension reserve fund (the Reserve Fund) that "will be funded through the projected surplus to be used to provide funding for PayGo" and "will be held in a trust for the sole benefit of beneficiaries of PayGo." If the Joint Plan is confirmed, the Reserve Fund will be established on the Joint Plan's effective date and operate as "a reserve trust which will be utilized to secure the Commonwealth's pension obligations under Act 106," which established the PayGo system. The Reserve Fund will be managed by an independent entity whose members must meet certain independent, professionalism, experience, and qualification standards, and will be subject to all government contracting, ethics, and conflicts of interest laws and regulations. The Reserve Fund will be funded initially with a $5 million contribution from the Commonwealth, then from fiscal year 2020 through fiscal year 2027, the Commonwealth will make additional annual contributions in the amount of (i) $175 million; or

(ii) 25% of any projected annual Fiscal Plan surplus exceeding $1.75 billion, whichever is greater.

The Joint Plan proposes no changes to the Authority's governance structure or the Authority's prepetition collective bargaining agreements during or following the Authority's Title II Case, unless any such changes are approved by both the Oversight Board and FAFAA. In addition, all general unsecured claims against the Authority would be unimpaired under the Joint Plan proposal. The Joint Plan currently remains subject to ongoing negotiation, solicitation, and final approval by the Title III Court.

For further information, please refer to the publically available Joint Plan and Disclosure Statement available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

K. Other Significant Subsequent Events Regarding the Authority

The fiscal year 2018 budget includes significant reductions in agencies' expenditures, encompassing almost all line items of expenditures, such as payroll and related costs, purchased services, subsidies, public service facilities, transportation costs, equipment purchases, materials and supplies, media advertising and federal funds local matching, among others.

The Authority requested annual operational budgets of $135 million for fiscal years 2016-2017, 2017-2018, and 2018- 2019 of which only $90 million funds were approved for annual budgets

2016-2017 and 2017-2018, by the Puerto Rico Office of Management and Budget (OMB) and $114.7 million for 2018-2019 period, by the Financial Oversight and Management Board for Puerto Rico (FOMB). Management believes the assigned resources for operational expenses, including payroll, are insufficient. This situation seriously constrains the Authority's liquidity, and additionally could affect the going concern of its operations in the near future.

Most of such lease payments are subject to legislative appropriation from the Commonwealth's General Fund Budget. The Authority's lease payments and its bonds are, however, guaranteed by the good faith, credit and taxing power of the Commonwealth. The Authority bonds, therefore, constitute Commonwealth Guaranteed Obligations. The Authority is currently authorized by law to have outstanding at any time up to $4.7 billion of bonds guaranteed by the Commonwealth.

On July 1, 2016, the Authority defaulted its bond obligations. Of the approximately $186.9 million debt service ($86.1 million in principal and $100.9 million in interest) due on the Authority outstanding bonds, all was paid except principal of $25.2 million. In October 2016,

applicable to the unpaid $25.2 million, the Authority paid bond principal amount of $10.4 million from proceeds received of bond insurance. From July 1, 2018, the Authority has not received IRS grant for payment of bonds.

Of the outstanding bonds debt service requirements, interest due in October 2017 of approximately $12.4 million, approximately $3.3 million remain unpaid. The amount of interest that was paid reflects amounts received from applicable interest subsidy programs. Of the outstanding bond interest debt service due in January 2018 of approximately $97.5 million, approximately $78.4 million remained unpaid. The amount of interest that was paid reflects amount received from applicable interest subsidy programs and the proceeds from insurance. Of the outstanding bonds debt service due in April 2018 of approximately $12.4 million, of approximately $3.3 million remained unpaid. The amount of interest that was paid reflects mount receive from applicable interest subsidy programs. Of the outstanding bonds debt service due in July 2018 of approximately $164.5 million, approximately $134.5 million remained unpaid. The amount of principal and interest that was paid reflects amount received from the proceeds from insurance**.** The service payment due in October 2018 of approximately $12.4 million was defaulted because the Authority did not receive the subsidy programs. Of the outstanding bond interest debt service due in January 2019 of approximately $98.0 million, approximately $83.5 million remained unpaid. The amount of interest that was paid reflects amount received from the proceeds from insurance. The service payment due in April 2019 of approximately $12.4 million was defaulted because the Authority did not receive the subsidy programs.

On November 29, 2018, pursuant to Article 501 of Act No. 109-2017, as amended, the Puerto Rico Fiscal Agency Advisory Authority (AAFAF, Spanish acronym) confirmed the GDB post-setoff loan balance of approximately $137.4 million.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND AUTHORITY'S CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2017

The following schedules are being presented to provide information on the Authority's proportionate share of the Net Pension Liability and the Authority's contributions related to the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities.

Schedule Public Buildings Authority's Proportionate Share of the Net Pension Liability

		Fiscal Year 2017
Authority's proportion of the net pension liability		1.17915%
Authority's proportionate share of the net pension liability	$	444,525,548
Authority's covered-employee payroll	$	49,381,740
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll		900%
Plan's fiduciary net position as a percentage of the total pension liability		(3.47)%

Schedule of Authority's Contributions

Statutorily required employer contribution	$	9,890,191
Amount of contributions recognized by the pension plan in relation to the statutorily required contributions	$	7,860,508
Contribution excess (deficiency)	$	2,029,683
Authority's covered-employee payroll	$	49,381,740
Contributions recognized by the pension plan as a percentage of covered-employee payroll		15.92%

Amounts presented above were based on measurement period ending June 30, 2016

The Schedule of Authority's Contributions is intended to present information for 10 years. Additional years will be displayed as they become available.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT HEALTHCARE BENEFITS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Valuation Date June 30.	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
2012	$ -	$ 26,162,334	$ 26,162,334	- %	$ 52,933,339	49.4%
2013	$ -	$ 20,522,160	$ 20,522,160	- %	$ 51,120,417	40.2%
2014	$ -	$ 22,260,737	$ 22,260,737	- %	$ 58,039,372	38.4%
2015	$ -	$ 20,381,941	$ 20,381,941	- %	$ 52,832,651	38.6%
2016	$ -	$ 20,307,833	$ 20,307,833	- %	$ 49,973,803	40.6%
2017	$ -	$ 20,925,162	$ 20,925,162	- %	$ 52,717,361	39.7%

OTHER SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF BONDS SINKING FUNDS ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Bond Service Account
Governmental Facilities Bonds	
Balance at July 1, 2016	$ 166,205,731
Receipts:	
Debt service rental	47,544,108
Investment income	4,420
Deposits from other accounts	484
Disbursements:	
Payment of bonds interest on bonds	(146,230,079)
Payment of bonds principal on bonds	(64,057,849)
Balance at June 30, 2017	3,466,815
Office Buildings Bonds	
Balance at July 1, 2016	1,026,162
Receipts:	
Transfers from other accounts	2,052,324
Disbursements:	
Payment of bonds interest on bonds	(2,052,324)
Balance at June 30, 2017	1,026,162
Total bond sinking funds	$ 4,492,977

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF OPERATING RENTAL REVENUES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Office Buildings		
Debt Service Rental - bonds and notes	$	80,590,716
Operating and administrative		53,573,435
Equipment reserve rentals		4,702,303
Total office buildings		138,866,455
Public Education Buildings		
Debt service rental- bonds and notes		189,612,944
Operating and administrative		55,805,553
Equipment reserve rentals		17,499,822
Total public education buildings		262,918,319
Health Facilities		
Debt service rental - bonds andnNotes		10,581,714
Operating and administrative		1,596,082
Equipment reserve rentals		812,423
Total health facilities		12,990,218
Total operating rental revenues		414,774,992
Uncollectible amounts		50,980,253
Total operating rental revenue, net	$	363,794,739

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

We have audited, in accordance with the auditing standards generally accepted in the United States of the America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Public Buildings Authority ("the Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 18, 2020. The following emphasis of matter paragraphs were reported as follows:

Emphasis of Matter

Reissuance of June 30, 2017 financial statements

As reflected in Note 24, the Authority reissued the financial statements issued on June 24, 2019, because the management subsequently discovered facts about the agreements with monoline insurers of the Authority's bonds containing subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and recognized such liability.

Also reflected in Note 24, the Authority's management subsequently discovered facts about the impact recorded as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. After further consideration of the legal aspects of the agreement, management corrected the balances reflected in the Statement of Net Position (Deficit) as of June 30, 2017 and the Statement of Revenues Expenses and Changes in Deficit for the year then ended.

Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, in the notes.

Our opinion was not modified with respect of the above matters.

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To the Board of Directors of the
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Emphasis of Matter (continued)

Uncertainty about Ability to Continue as a Going Concern-the Authority

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Notes 3, 6, and 11 to the financial statements, the Authority is a component unit of the Commonwealth. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Authority depends significantly on appropriations from the Commonwealth, the financial condition and liquidity of the Authority has been similarly affected. Further, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation and plans regarding these matters are described in note 3 to the basic financial statements. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date. Our opinion is not modified with respect to this matter.

Internal control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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To the Board of Directors of the
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(A Component Unit of the Commonwealth of Puerto Rico)

Internal control over Financial Reporting (continued)

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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To the Board of Directors of the
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We consider the following deficiencies in internal controls to be material weaknesses:

1. Develop a year-end closing schedule

This year's closing process was delayed because some important procedures were not performed on time. The results were delays in producing closing entries, accurate trial balances, schedules, reconciliations, account analyzes, required disclosures and other financial reports needed by management and the auditors. We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates could be monitored to determine that they are being met.

During the audit, we recommended eight adjusting journal entries. The effect of such entries was to increase net income and decrease in net position by $61,161,900 and $7,517,756, respectively. Substantially all of the entries were to make accruals and other adjustments, including the implementation of GASB No. 68 - Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, and the settlement with GDB that should have been made by the accounting department. We believe that a review and evaluation of transactions and proper monthly closing procedures would expedite the year-end closing and reduce audit time and professional fees.

Management's response:

Monthly closing schedule is prepared at the beginning of fiscal year. Financial accounting software modules are worked out by accounting employees who generate financial accounting reports to reconcile general ledger accounts. The closing process is supervised by accounting managers who report completion to the executive level of the Authority. The accounting department continues to be understaffed and is unable to timely address the required duties.

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2. Bank reconciliations

We noted that bank balances were not reconciled on time. A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared in a monthly basis to determine that all cash transactions have been recorded properly and to discover bank errors.

Management's response:

Management already sent to employees a communication with the closing dates. As a result of lack of employees, the Authority failed to execute properly.

We consider the following deficiencies in internal controls to be significant deficiencies:

3. Capital Assets

During our audit, we noted that capital assets balances were not properly roll forwarded and reconciled from the year ended June 30, 2016 to June 30, 2017. We recommend that the Corporation reconcile the rollforward record on a monthly basis. This will result in a more efficient treatment for property and equipment and also eliminate unnecessary work by the accounting personnel during and reduce audit time and professional fees.

Management's response:

Accounting management is monitoring the accounting system and communicating with accounting staff with the objective to obtain an accurate monthly closing and reporting to upper management.

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Compliance and Other Matters

As a part of obtaining reasonable assurance about whether Authority's financial statements are free from material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. This result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
March 18, 2020

Certified Public Accountants
License No. 231 expires December 1, 2021
Stamp No. 381407 of the P.R. Society of
Certified Public Accountants has been
Affixed to the file copy of this report